

Culpeper Wellness Foundation, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2023 and 2022



4401 Dominion Boulevard
Glen Allen, Virginia 23060
Tel: 804.747.0000
www.keitercpa.com

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Culpeper, Virginia

Opinion

We have audited the accompanying consolidated financial statements of Culpeper Wellness Foundation, Inc. and Subsidiary (the "Organization") which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Culpeper Wellness Foundation, Inc. and Subsidiary as of December 31, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Culpeper Wellness Foundation, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Consolidated Financial Statements

The consolidated financial statements of Culpeper Wellness Foundation, Inc. and Subsidiary as of December 31, 2022 were audited by other auditors whose report dated August 15, 2023 expressed an unmodified opinion on those consolidated statements.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Culpeper Wellness Foundation, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Culpeper Wellness Foundation, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in aggregate, that raise substantial doubt about Culpeper Wellness Foundation, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



July 17, 2024
Glen Allen, Virginia

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 484,999	\$ 391,112
Contract assets, net	51,039	54,683
Pledges receivable, current	87,620	551,050
Prepaid expenses and other current assets	<u>53,160</u>	<u>61,669</u>
Total current assets	676,818	1,058,514
Pledges receivable, long term	52,500	87,500
Other assets	4,702	9,280
Investments	27,974,988	23,297,389
Property and equipment, net	17,519,783	17,901,694
Finance lease, right-of-use asset, net	100,929	30,089
Goodwill, net	<u>21,010</u>	<u>26,740</u>
Total assets	<u>\$ 46,350,730</u>	<u>\$ 42,411,206</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 202,095	\$ 307,386
Annuity payable, current	2,450	2,450
Note payable, current	112,018	109,316
Finance lease liability, current	19,855	14,316
Accrued expenses	95,827	83,079
Contract liabilities	<u>79,565</u>	<u>122,038</u>
Total current liabilities	511,810	638,585
Note payable, less current portion	3,516,322	3,628,423
Annuity payable, less current portion	20,428	16,544
Finance lease liability, less current portion	<u>81,074</u>	<u>15,773</u>
Total liabilities	<u>4,129,634</u>	<u>4,299,325</u>
Net assets:		
Without donor restrictions	42,067,889	37,483,244
With donor restrictions	<u>153,207</u>	<u>628,637</u>
Total net assets	<u>42,221,096</u>	<u>38,111,881</u>
Total liabilities and net assets	<u>\$ 46,350,730</u>	<u>\$ 42,411,206</u>

See accompanying notes to consolidated financial statements.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended December 31, 2023 with Comparative Totals for 2022

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and revenue:				
Membership dues	\$ 1,357,657	\$ -	\$ 1,357,657	\$ 1,230,310
Program revenue	299,994	-	299,994	212,238
Ancillary revenue	193,797	-	193,797	138,188
Contributions	480,049	109,103	589,152	546,883
Contributed non-financial assets	713,838	-	713,838	586,292
Donated stock	-	-	-	530,624
Donated property	-	-	-	243,513
Contributed non-financial services	1,248,488	-	1,248,488	1,392,817
Grants	327,733	-	327,733	184,515
Other grant	-	-	-	340,029
Special events	-	-	-	68,003
Rental income	1,018,840	-	1,018,840	965,065
Total support and revenue	<u>5,640,396</u>	<u>109,103</u>	<u>5,749,499</u>	<u>6,438,477</u>
Net assets released from restrictions	<u>584,533</u>	<u>(584,533)</u>	<u>-</u>	<u>-</u>
Expenses:				
Program services	5,155,651	-	5,155,651	5,261,313
Management and general	848,180	-	848,180	790,441
Fundraising	64,978	-	64,978	34,937
Rental property	370,903	-	370,903	329,696
Total expenses	<u>6,439,712</u>	<u>-</u>	<u>6,439,712</u>	<u>6,416,387</u>
Change in net assets from operations	(214,783)	(475,430)	(690,213)	22,090
Net investment gain (loss)	<u>4,799,428</u>	<u>-</u>	<u>4,799,428</u>	<u>(4,311,090)</u>
Change in net assets	4,584,645	(475,430)	4,109,215	(4,289,000)
Net assets, beginning of year	<u>37,483,244</u>	<u>628,637</u>	<u>38,111,881</u>	<u>42,400,881</u>
Net assets, end of year	<u>\$ 42,067,889</u>	<u>\$ 153,207</u>	<u>\$ 42,221,096</u>	<u>\$ 38,111,881</u>

See accompanying notes to consolidated financial statements.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Membership dues	\$ 1,230,310	\$ -	\$ 1,230,310
Program revenue	212,238	-	212,238
Ancillary revenue	138,188	-	138,188
Contributions	517,496	29,387	546,883
Contributed non-financial assets	586,292	-	586,292
Donated stock	530,624	-	530,624
Donated property	243,513	-	243,513
Contributed non-financial services	1,392,817	-	1,392,817
Grants	184,515	-	184,515
Other grant	340,029	-	340,029
Special events, net of expenses of \$18,798	68,003	-	68,003
Rental income	965,065	-	965,065
	<u>6,409,090</u>	<u>29,387</u>	<u>6,438,477</u>
Total support and revenue			
Net assets released from restrictions	<u>565,467</u>	<u>(565,467)</u>	<u>-</u>
Expenses:			
Program services	5,261,313	-	5,261,313
Management and general	790,441	-	790,441
Fundraising	34,937	-	34,937
Rental property	329,696	-	329,696
	<u>6,416,387</u>	<u>-</u>	<u>6,416,387</u>
Total expenses			
Change in net assets from operations	558,170	(536,080)	22,090
Net investment loss	<u>(4,311,090)</u>	<u>-</u>	<u>(4,311,090)</u>
Change in net assets	(3,752,920)	(536,080)	(4,289,000)
Net assets, beginning of year	<u>41,236,164</u>	<u>1,164,717</u>	<u>42,400,881</u>
Net assets, end of year	<u>\$ 37,483,244</u>	<u>\$ 628,637</u>	<u>\$ 38,111,881</u>

See accompanying notes to consolidated financial statements.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended December 31, 2023 with Comparative Totals for 2022

	2023				2022	
	Supporting Services					
	Program Services	Management and General	Fundraising	Rental Property	Total Expenses	Total Expenses
Personnel costs	\$ 1,310,700	\$ 386,987	\$ 14,904	\$ 43,360	\$ 1,755,951	\$ 1,831,376
Supplies and services	2,059,164	-	-	-	2,059,164	2,079,542
Depreciation and amortization	469,135	77,116	-	199,710	745,961	696,737
Occupancy	297,667	9,010	-	48,486	355,163	373,780
Grants awarded	507,095	-	-	-	507,095	501,948
Utilities	233,680	6,101	-	-	239,781	219,245
Professional fees	19,212	211,365	-	15,712	246,289	225,411
Taxes and licenses	51,414	1,389	-	39,689	92,492	84,282
Marketing and promotion	22,133	10,737	50,074	-	82,944	78,989
Insurance	50,172	15,619	-	6,992	72,783	69,631
Office supplies	37,906	31,092	-	-	68,998	60,042
Interest	7,556	87,929	-	16,929	112,414	87,960
Bank charges	53,536	2,215	-	-	55,751	61,190
Travel and conferences	10,300	3,813	-	-	14,113	14,862
Bad debt expense	18,300	-	-	-	18,300	16,349
Dues and subscriptions	7,681	3,783	-	25	11,489	13,476
Miscellaneous	-	1,024	-	-	1,024	1,567
Total expenses	\$ 5,155,651	\$ 848,180	\$ 64,978	\$ 370,903	\$ 6,439,712	\$ 6,416,387

See accompanying notes to consolidated financial statements.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended December 31, 2022

	<u>Supporting Services</u>				
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Rental Property</u>	<u>Total Expenses</u>
Personnel costs	\$ 1,361,098	\$ 399,400	\$ 17,718	\$ 53,160	\$ 1,831,376
Supplies and services	2,079,542	-	-	-	2,079,542
Depreciation and amortization	507,143	52,752	-	136,842	696,737
Occupancy	311,527	7,241	-	55,012	373,780
Grants awarded	501,948	-	-	-	501,948
Utilities	199,947	19,298	-	-	219,245
Professional fees	15,901	191,614	-	17,896	225,411
Taxes and licenses	51,438	309	-	32,535	84,282
Marketing and promotion	55,774	5,996	17,219	-	78,989
Insurance	39,715	24,662	-	5,254	69,631
Office Supplies	45,777	9,990	-	4,275	60,042
Interest	-	63,388	-	24,572	87,960
Bank charges	55,471	5,719	-	-	61,190
Travel and conferences	9,804	5,058	-	-	14,862
Bad debt	16,349	-	-	-	16,349
Dues and subscriptions	8,387	4,939	-	150	13,476
Equipment rental	1,492	75	-	-	1,567
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 5,261,313</u>	<u>\$ 790,441</u>	<u>\$ 34,937</u>	<u>\$ 329,696</u>	<u>\$ 6,416,387</u>

See accompanying notes to consolidated financial statements.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,109,215	\$ (4,289,000)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	729,571	681,039
Gain on sale of assets	(166)	-
Bad debt expense	18,300	16,349
Realized and unrealized (gain) loss on investments	(4,422,082)	4,532,984
Right of use asset - finance lease amortization	33,398	15,698
Change in assets and liabilities:		
Contract assets and pledges receivable	480,130	505,930
Prepaid expenses and other current assets	16,731	(26,806)
Accounts payable	(105,291)	253,121
Accrued expenses	12,748	8,160
Contract liabilities	<u>(42,473)</u>	<u>54,889</u>
Net cash provided by operating activities	<u>830,081</u>	<u>1,752,364</u>
Cash flows from investing activities:		
Purchases of property and equipment	(341,930)	(2,541,562)
Proceeds from sale of property and equipment	166	-
Purchases of investments	(760,635)	(8,555,460)
Proceeds from sale of investments	<u>505,118</u>	<u>7,670,402</u>
Net cash used in investing activities	<u>(597,281)</u>	<u>(3,426,620)</u>
Cash flows from financing activities:		
Change in annuity payable, net	3,884	(4,900)
Payments on notes payable	(109,399)	(62,261)
Payments on finance lease	(33,398)	(15,698)
Draws on notes payable	<u>-</u>	<u>1,675,000</u>
Net cash (used in) provided by financing activities	<u>(138,913)</u>	<u>1,592,141</u>
Net change in cash and cash equivalents	93,887	(82,115)
Cash and cash equivalents, beginning of year	<u>391,112</u>	<u>473,227</u>
Cash and cash equivalents, end of year	<u>\$ 484,999</u>	<u>\$ 391,112</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 112,414</u>	<u>\$ 75,374</u>
Donation of stock	<u>\$ -</u>	<u>\$ 530,624</u>
Donation of property	<u>\$ -</u>	<u>\$ 243,513</u>

See accompanying notes to consolidated financial statements.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

1. Organization:

Culpeper Wellness Foundation, Inc. (“CWF”) is a not-for-profit organization supporting the communities in and around Culpeper, Virginia. CWF is the parent of Powell Wellness Center L.L.C. (“PWC”), operates the Culpeper Free Clinic, provides various community grant programs, and leases real estate to physicians and support operations and is referred to collectively, as the (“Organization”). PWC owns and operates PATH Recreation and Fitness (“PRFC”).

The Organization receives support through wellness center memberships and programs, donations from individuals, businesses, churches, and other organizations in the Culpeper area and through grants obtained from local governments and other charitable organizations. In addition, the Organization receives rental income.

2. Summary of Significant Accounting Policies:

Basis of Presentation: The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”) which includes use of the accrual basis of accounting.

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Under the standards for not-for-profit organizations, the Organization is required to report information regarding its financial position and activities in two classes of net assets as follows:

Net assets without donor restrictions – not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors. Net assets without donor restrictions includes \$325,000 of board-designated net assets as an operating reserve as of December 31, 2023, and \$285,000 of board-designated net assets as an operating reserve as of December 31, 2022.

Net assets with donor restrictions – subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. There were no funds to be maintained in perpetuity as of December 31, 2023 or 2022.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Principles of Consolidation: The consolidated financial statements include the accounts of CWF and its wholly owned subsidiary, PWC. All significant intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash in banks and short-term debt instruments with original maturities of 90 days or less. Cash and cash equivalents are stated at cost. The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Support and Revenue: PWC and PRFC membership revenue is recognized over the period during which the membership is active. Membership at PRFC and PWC is on a month-to-month basis with no annual contract. Ancillary revenue, which consists of pro shop sales, assessment fees, locker rental revenue, café revenue, gift card revenue, late fees and PWC and PRFC wellness program fees, is recognized at the point of sale or as services are rendered. Special event revenue is recognized in the period the event takes place. Rental income is recognized over the period facilities are available to tenants. Payments received in advance are deferred and recognized over the period to which they relate. Contributions are recognized as revenue when they are received or unconditionally pledged. During 2023, two contributors accounted for 27% of contributions and grants. During 2022, three contributors accounted for 66% of contributions and grants.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as net assets without donor restrictions in the accompanying consolidated financial statements.

Disaggregation of Revenue from Contracts with Customers: The following table disaggregates the Organization's revenue based on the timing of satisfaction of performance obligation for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Performance obligations satisfied over time	\$ 1,357,657	\$ 1,230,310
Performance obligations satisfied at a point in time	<u>1,512,631</u>	<u>1,296,693</u>
	<u>\$ 2,870,288</u>	<u>\$ 2,527,003</u>

Performance Obligations: The services that the Organization provides as part of membership are highly interrelated and are treated as a single performance obligation.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Donated Services and Supplies: The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and would have been purchased if not contributed, are recorded at their fair values in the period received.

Non-cash donations are recorded as support at their estimated fair value at the date of donations. Such donations are reported as unrestricted support unless the donor has restricted the donation for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support.

The Organization receives contributed medical services, including lab and diagnostic services, as well as professional medical volunteers who assist the Organization in providing health and welfare services. The volunteer services are provided primarily by medical doctors and nurses. The Organization records these donated services based on the estimated hours spent directly from individuals who donated those services at standard billing rates. Donated services were \$48,170 and \$31,468 for the years ended December 31, 2023 and 2022, respectively.

The free clinic also receives donated diagnostic services as well as pharmaceuticals from UVA Culpeper Medical Center and various manufacturers for distribution to patients, as prescribed. The Organization records these donated services based on the values received directly from the donor. For the year ended December 31, 2023 and 2022, the value of donated pharmaceuticals and diagnostic services was \$1,914,156 and \$1,947,641, respectively, and is recorded as in-kind contribution support in the accompanying consolidated statements of activities. During 2023, two contributors accounted for 97% of donated services and supplies. During 2022, two contributors accounted for 99% of donated services and supplies.

During 2022, the Organization received donated materials and related professional services for the construction of the recreational center. The value recorded was based on the invoices received directly from the donors, totaled \$243,513. In addition, the Organization received donated securities, of which the recorded values on the dates of donation, totaled \$530,624.

Pledges Receivable: Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flow. Amortization of the resultant discount is recognized as contribution revenue. The need for an allowance for uncollectible pledges receivable is determined based on an evaluation of the collectability of individual promises. All pledges were considered fully collectible at December 31, 2023 and 2022; accordingly, no allowance for doubtful pledges receivable was recorded.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Inventories: Inventories consist primarily of apparel and snack items available for sale at PWC and are initially recorded at cost (if purchased), using the average cost method, or fair value at date of donation (if donated), and subsequently valued at the lower of cost or net realizable value. Inventory is included in prepaid expenses and other current assets on the consolidated statements of financial position.

Accounts Receivable and Allowance for Credit Losses (Contract Assets): In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments – Credit Losses (Topic 326), which replaced the incurred loss methodology for estimating credit losses with the current expected credit loss (“CECL”) model to estimate credit losses for most financial assets held at amortized cost. The new model requires entities to consider a wide range of information when estimating credit losses, including historical loss information, current conditions, and reasonable and supportable forecasts. Under the CECL model, the allowance for credit losses on financial assets reflects management’s estimate of credit losses over the remaining expected life of the assets. The Organization adopted the new standard effective January 1, 2023. The adoption of the new standard did not have a material effect on the Organization’s consolidated financial statements.

Accounts receivable consists primarily of member billings for PWC and are recorded at the invoiced amount, net any estimated allowance for credit losses. The allowance for credit losses is the Organization’s best estimate of the amount of probable credit losses in the Organization’s existing accounts receivable. The allowance for credit losses/doubtful accounts was \$1,288 at December 31, 2023 and 2022.

Contract assets amounted to \$51,039 and \$54,683 at December 31, 2023 and 2022, respectively, and \$59,528 as of January 1, 2022.

Contract Liabilities (Deferred Revenue): In certain instances, the Organization collects deposits from members in advance of delivery of the item or service given. The Organization recognizes a liability when a member provides payment prior to the Organization transferring control of the goods or services (“contract liabilities”). Contract liabilities are relieved, and revenue is recognized upon the transfer of control of promised goods to members. Contract liabilities totaled \$79,565 and \$122,038, and \$67,149 as of December 31, 2023 and 2022, and January 1, 2022, respectively.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statements of financial position. Realized and unrealized gains and losses are included in the change in net assets. Investments consist of money market funds and cash equivalents, equity securities, mutual funds, fixed income securities, and government and agency bonds that are publicly traded. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect amounts reported on the consolidated financial statements.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Goodwill: The Organization, under PWC, purchased the business and assets of Culpeper Sport & Racquet Club, which has since been renamed to PATH Recreation and Fitness (PRFC), during the year ended December 31, 2017. The goodwill related to PRFC is being amortized on a straight-line basis over 10 years, and amortization expense was \$5,730 for 2023 and 2022.

Property and Equipment: Property and equipment are stated at cost or fair value at the date of the donation. Depreciation and amortization are provided by the straight-line method based on estimated useful lives as follows:

Buildings and improvements	5 to 40 years
Equipment and furnishings	7 to 15 years

Depreciation expense was \$723,841 and \$675,309 for the years ended December 31, 2023 and 2022, respectively.

Impairment of Long-Lived Assets: Long-lived assets, such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated statements of financial position and reported at the lower of the carrying amount or estimated fair value less costs to sell, and no longer depreciated. There was no impairment expense on long-lived assets during 2023 or 2022.

Advertising: Advertising expenses are charged to expense as incurred. The Organization incurred \$27,558 and \$58,322 in advertising expenses for 2023 and 2022.

Reclassifications: Certain prior year balances have been reclassified to conform with the current year presentation.

Income Tax Status: CWF is exempt from federal income taxes under Code Section 501(c)(3) of the Internal Revenue Code (the "Code"). In addition, CWF qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Code and has been classified as an organization that is not a private organization under Code Section 509(a)(2). PWC is a limited liability company that has not elected to be taxed as a corporation under current Internal Revenue Service regulations. As such, PWC is a disregarded entity for federal income tax purposes and does not have to file an annual federal return. Rather, its tax results are reflected on the annual tax filings of its member as if the activities of PWC were activities of the member.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Income Tax Status, Continued: Management evaluated CWF's tax positions and determined that CWF has no uncertain tax positions that require adjustment to the consolidated financial statements at December 31, 2023 and 2022. CWF files Form 990, *Return of Organization Exempt from Income Tax*, annually with the United States Department of the Treasury. The Organization is not currently under audit by any tax jurisdiction.

Functional Allocation of Expenses: Program, management and general, fundraising, and rental property costs have been summarized on a functional basis in the consolidated statements of functional expenses. Certain indirect costs have been allocated to programs and supporting services on the basis of the activity benefited.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Personnel costs	Time and effort
Supplies and services	Actual usage
Utilities	Square footage
Depreciation and amortization	Square footage
Occupancy	Square footage
Professional fees	Actual usage
Taxes and licenses	Square footage
Marketing and promotion	Actual usage
Insurance	Square footage
Office supplies	Actual usage
Bank charges	Actual usage
Travel and conferences	Time and effort
Dues and subscriptions	Actual usage

Leases: The Organization follows the guidance contained in FASB ASC 842, Leases. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of activities. The Organization does not record a right-of-use asset and lease liability for leases with a term of less than 12 months, and the payments are recognized in the consolidated statements of activities on a straight-line basis over the lease term.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

2. Summary of Significant Accounting Policies, Continued:

Leases, Continued: The lease liabilities are initially measured at the present value of future lease payments, measured on a discounted basis, as of the lease commencement date. The Organization has made a policy election to use its current borrowing rate for the initial and subsequent measurement of all lease liabilities. The right-of-use (“ROU”) assets are initially measured at the value of the lease liability, adjusted for initial direct lease costs, lease incentives, and prepaid or deferred rent. The right-of-use assets and lease liabilities are calculated to include options to extend or terminate the lease when the Organization determines that it is reasonably certain it will exercise those options. In making those determinations, the Organization considers various existing economic and market factors, business strategies as well as the nature, length, and terms of the lease agreements.

Subsequent Events: Management has evaluated subsequent events through July 17, 2024, the date the consolidated financial statements were available for issuance, and has determined that there are no subsequent events to be reported in the accompanying consolidated financial statements.

3. Liquidity and Availability of Financial Assets:

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date of December 31, 2023 and 2022 are comprised of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 484,999	\$ 391,112
Contract assets	51,039	54,683
Pledges receivable	87,620	551,050
Investments	<u>27,974,988</u>	<u>23,297,389</u>
Total assets available within one year	28,598,646	24,294,234
Less: amounts not available to be used within one year:		
Net assets with donor restrictions	<u>153,207</u>	<u>628,637</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 28,445,439</u>	<u>\$ 23,665,597</u>

The Organization has a policy to structure its financial assets as its general expenditures, liabilities, and other obligations come due.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

4. Pledges Receivable:

Pledges receivable are carried at net realizable value at December 31 and consisted of the following:

	2023	2022
Amounts due in:		
Less than one year	\$ 87,620	\$ 551,050
One to five years	54,500	91,500
Less present value discount	(2,000)	(4,000)
	\$ 52,500	\$ 87,500

The discount rate of 2.65% was used to calculate the present value of the pledges receivable at December 31, 2023 and 2022.

5. Board Designated Endowment:

The Organization's endowment was a fund designated by the Board of Directors. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. In March 2023, the Board of Directors voted to undesignate the funds in the endowment. There are no donor-imposed restrictions on this fund; therefore, it is classified in net assets without donor restrictions in the accompanying consolidated financial statements as of December 31, 2023 and 2022.

6. Investments:

Investments at December 31, 2023 and 2022 are comprised of the following:

	2023	2022
Money market funds and cash equivalents	\$ 1,096,440	\$ 520,130
Equities	21,181,566	-
Mutual funds	-	17,476,741
Government and agency bonds	-	624,245
Fixed income	5,696,982	4,676,273
	\$ 27,974,988	\$ 23,297,389

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

6. Investments, Continued:

Investment income (loss) for the years ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 561,380	\$ 401,746
Investment fees	(184,034)	(179,852)
Net realized and unrealized gains (losses) on investments	<u>4,422,082</u>	<u>(4,532,984)</u>
	<u>\$ 4,799,428</u>	<u>\$ (4,311,090)</u>

7. Fair Value Measurements:

The Organization uses a framework for measuring fair value under GAAP for all financial assets and liabilities measured at fair value on a recurring basis. There are no material assets or liabilities recognized or disclosed at fair value for which the Organization has not applied the provisions.

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

Level 1 – Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 – Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

7. Fair Value Measurements, Continued:

The following methods and assumptions were used to estimate the fair value of investments:

Money market funds and cash equivalents: Money market funds and other cash equivalents are recorded at cost which approximates fair value. Observable inputs are used to value these investments.

Equity securities and mutual funds: Equity securities and mutual funds are valued using quoted market prices.

Fixed income securities: Fixed income securities are valued using quoted market prices.

Government and agency bonds: Government and agency bonds are valued using model-based valuation techniques.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level within the fair value hierarchy the Organization's assets accounted for at fair value on a recurring basis as of December 31, 2023.

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,096,440	\$ -	\$ -	\$ 1,096,440
Equities	21,181,566	-	-	21,181,566
Fixed income	<u>5,696,982</u>	<u>-</u>	<u>-</u>	<u>5,696,982</u>
Total assets at fair value	<u>\$ 27,974,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,974,988</u>

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

7. Fair Value Measurements, Continued:

The following table sets forth by level within the fair value hierarchy the Organization's assets accounted for at fair value on a recurring basis as of December 31, 2022.

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 520,130	\$ -	\$ -	\$ 520,130
Mutual funds	17,476,741	-	-	17,476,741
Government and agency bonds	-	624,245	-	624,245
Fixed income	4,676,273	-	-	4,676,273
Total assets at fair value	\$ 22,673,144	\$ 624,245	\$ -	\$ 23,297,389

8. Net Assets with Donor Restrictions:

Net assets with donor restrictions consist of a pledge from UVA Culpeper Medical Center and other contributions with donor restrictions for specific projects as of December 31, 2023 and 2022. Due to the satisfaction of time and purpose restrictions as pledge payments were received and donor-imposed stipulations were met, net assets of \$584,533 and \$565,467 were released to meet charitable community wellness needs during the years ended December 31, 2023 and 2022, respectively.

9. Property and Equipment:

Major classes of property and equipment consist of the following at December 31:

	2023	2022
Land	\$ 3,704,181	\$ 3,594,231
Buildings and improvements	22,622,542	21,982,578
Equipment and furnishings	1,207,268	1,207,073
Construction in progress	-	411,390
	27,533,991	27,195,272
Less accumulated depreciation	10,014,208	9,293,578
Property and equipment, net	\$ 17,519,783	\$ 17,901,694

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

10. Leases:

The Organization leases office equipment through December 31, 2029. The corresponding right-of-use asset and liability were calculated utilizing the Organization's borrowing rate of 2.65%. Operating lease costs were \$16,391 for 2023 and \$15,698 for 2022, and the weighted average term remaining is 5.08 for 2023 and 4.25 for 2022.

Estimated minimum payments under this lease are as follows for the years ending December 31:

<u>Year</u>	<u>Amount</u>
2024	\$ 21,530
2025	21,530
2026	21,530
2027	21,530
2028	21,530
Thereafter	<u>1,792</u>
Total lease payments	109,442
Less: amount representing interest	<u>8,513</u>
Total finance lease liabilities	<u>\$ 100,929</u>

11. Note Payable:

In conjunction with the expansion and construction of the PRFC, the Organization arranged for a \$3,800,000 loan with a local bank on May 7, 2021. The loan is collateralized by marketable securities owned by the Organization. The loan has a 12-month term from origination. After twelve months, it converted into a term loan with a maturity of 120 months. During the first 12 months, monthly payments consisted of accrued interest on the balance. After twelve months, monthly payments of principal and interest are based on an amortization period of 25 years. Interest is 2.65% fixed for 132 months. Management believes the Organization is in compliance with all debt covenants as of the date of the consolidated financial statements or has received a waiver. At December 31, 2023 and 2022, \$3,628,340 and \$3,737,739 was outstanding under the loan, respectively.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

11. Note Payable, Continued:

The principal maturities of note payable under the above loan are as follows for subsequent years ending December 31:

<u>Year</u>	<u>Amount</u>
2024	\$ 112,018
2025	115,336
2026	118,474
2027	121,696
2028	124,771
Thereafter	<u>3,036,045</u>
	<u>\$ 3,628,340</u>

12. Annuity Obligation:

The Organization is a party to a gift annuity agreement with a donor requiring annual payments of \$2,450. The recorded obligation represents the present value of expected payments over the donor's remaining life expectancy measured according to IRS annuity tables using a discount rate of 6%.

13. Compensated Absences:

Employees who have met length-of-service requirements (as defined by the Organization's policies) earn compensatory leave. Employees may carry a maximum of 180 hours of compensatory leave. At termination or retirement, employees who have met separation-of-service requirements (as defined by the Organization's policies) will be paid for compensatory leave balances, as follows: 100% of the first 50% of eligible hours and 50% of the remaining eligible hours. At December 31, 2023 and 2022, the Organization's accrual for compensated absences was \$51,296 and \$39,798, respectively, and is included in accrued expenses in the accompanying consolidated statements of financial position.

14. Rental Income:

The Organization is the lessor of various real estate properties under operating leases expiring in various years. In addition, PWC and CWF both lease property to a related party. Rental income for the year ended December 31, 2023 was \$1,018,840, of which \$588,060 was related party income. Rental income for the year ended December 31, 2022 was \$965,065, of which \$488,479 was related party income. There was no in-kind rental income for the year ended December 31, 2023, and 2022. Several of the Organization's leases have various renewal options and escalating lease clauses that are not included in the amounts below.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

14. Rental Income, Continued:

Expected annual rental income on these leases, not including any potential renewals, are as follows:

<u>Year</u>	<u>Amount</u>
2024	\$ 399,936
2025	194,399
2026	64,899
2027	<u>21,633</u>
	<u>\$ 680,867</u>

15. Related-Party Transactions:

Throughout the year, the Organization reimburses certain expenses to UVA Culpeper Medical Center, which was formerly majority-owned by the Organization and is considered a related party. There is nothing outstanding for reimbursable expenses for both 2023 and 2022. Pledges receivable from UVA Culpeper Medical Center were \$0 and \$500,000 and net of the pledge discount as of December 31, 2023 and 2022, respectively. The pledge was receivable in annual installments of \$500,000 over 10 years. This pledge ended as of December 31, 2023.

During the year-ended December 31, 2021, the Piedmont Regional Dental Clinic (the "Clinic") entered into a management contract with the Foundation whereby the Foundation would provide management services to the Clinic in accordance with the Management Agreement. During 2023 and 2022, the Clinic paid \$38,185 and \$30,243, to the Organization, respectively.

16. Defined Contribution Plan:

The Organization has a defined contribution plan covering all employees who are over 21 years of age and have three months of service. Employees' matching contributions are based on a percentage of salary contributed by participants who have attained one year of service. Employee contributions are fully vested and employer contributions are 100% vested after one year of service. The employer match was not material to the consolidated financial statements in 2023 or 2022.

17. Donation of Property:

On December 30, 2019, the Organization donated property in Madison County with a book value of \$548,000 for strategic initiative purposes. The donation is subject to reversion for a period of twenty years if the grantee or its successor uses the property for any purpose other than general community health and wellness. There has been no indication that the property will be reverted.

CULPEPER WELLNESS FOUNDATION, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

18. Employee Retention Credit:

In response to the economic impact of the COVID-19 pandemic, Congress introduced the Employee Retention Credit ("ERC"). The ERC is a refundable payroll tax credit available to taxpayers who experienced either a full or partial suspension of business operations due to government orders or had a significant drop in gross receipts during 2021. The Organization qualified for the ERC based on reduction in gross receipts of 50% or greater in certain quarters and elected to account for the ERC as a government grant by analogy to *IAS 20, Accounting for Government Grants and Disclosure of Government Assistance*. Under IAS 20, the ERC is recognized once there is reasonable assurance that the Organization will comply with the conditions attached to the ERC and the ERC will be received. During the year ended December 31, 2022, the Organization recognized and received \$340,029 associated with the ERC which is included in other grant income on the consolidated statement of activities.

19. Indemnification:

The Organization has certain obligations to indemnify its current and former officers and trustees for certain events or occurrences while the officer or trustee is, or was serving, at the Organization's request in such capacities. The maximum liability under these obligations is limited under the Code of Virginia. The Organization's insurance policies serve to further limit its exposure. The Organization believes that the estimated fair value of these indemnification obligations is minimal.