

PECKHAM, INC. AND SUBSIDIARIES

**REPORT ON CONSOLIDATED
FINANCIAL STATEMENTS
(with supplementary information)**

YEARS ENDED SEPTEMBER 30, 2023 AND 2022



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Peckham, Inc. and Subsidiaries

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying consolidated financial statements of Peckham, Inc. and Subsidiaries (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the effects of not consolidating all financially interrelated not-for-profit organizations described in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Peckham, Inc. and Subsidiaries as of September 30, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 1 to the consolidated financial statements, Peckham, Inc. and Subsidiaries does not consolidate all financially interrelated not-for-profit organizations in the financial statements. In our opinion, accounting principles generally accepted in the United States of America require that these entities be included in Peckham, Inc. and Subsidiaries consolidated financial statements. The effects on the accompanying consolidated financial statements of this departure from accounting principles generally accepted in the United States of America have not been determined.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements Section of our report. We are required to be independent of Peckham, Inc. and Subsidiaries 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 qualified audit opinion.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 12 to the consolidated financial statements, during the year ended September 30, 2023, Peckham, Inc. and Subsidiaries has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to the adoption of this ASU.

Responsibilities of Management for the 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Peckham, Inc. and Subsidiaries' 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 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 and *Government 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment 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 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 Peckham, Inc. and Subsidiaries' 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Peckham, Inc. and Subsidiaries' 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as identified in the table of contents, and the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. The consolidating statements are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and change in net assets of the individual companies and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of not consolidating all financially interrelated not-for-profit organizations, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2023, on our consideration of Peckham, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Peckham, Inc. and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Peckham, Inc. and Subsidiaries internal control over financial reporting and compliance.

Other Information Included in the Organization's Annual Report

Management is responsible for the other information included in the Organization's annual report. The other information in the Organization's Annual Report comprises a letter to the community, summarized financial information, and mission-related accomplishments but it does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

In connection with the audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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December 21, 2023

PECKHAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2023 AND 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 45,822,824	\$ 33,546,958
Accounts and fees receivable less allowance for doubtful accounts of \$55,000 in 2023 and \$55,000 in 2022	20,674,944	26,324,413
Inventory	19,443,338	16,430,647
Prepaid expenses	3,249,452	2,607,842
Current portion of notes receivable	346,410	91,295
Total current assets	89,536,968	79,001,155
Noncurrent assets		
Investments	73,724,165	68,198,854
Deferred compensation investments	393,072	365,395
Notes receivable - less current portion	1,728,194	1,825,250
Property and equipment, net of accumulated depreciation	61,319,819	58,711,836
Operating lease right-of-use assets	11,887,464	-
Total noncurrent assets	149,052,714	129,101,335
TOTAL ASSETS	\$ 238,589,682	\$ 208,102,490
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 9,580,496	\$ 5,574,479
Accrued payroll and related items	2,439,288	2,515,417
Accrued paid time off	3,342,718	3,134,854
Accrued mission alignment incentive	4,190,576	7,411,903
Accrued retirement	4,125,705	3,331,812
Accrued contributions - Foundation	3,804,716	1,728,319
Reserve for incurred but not reported medical claims	1,600,000	1,600,000
Other accrued expenses	1,475	12,476
Current portion of operating lease liabilities	6,669,817	-
Total current liabilities	35,754,791	25,309,260
Noncurrent liabilities		
Operating lease liabilities, less current portion	5,285,954	-
Deferred compensation	393,072	365,395
Total noncurrent liabilities	5,679,026	365,395
TOTAL LIABILITIES	41,433,817	25,674,655
NET ASSETS		
Without donor restrictions - undesignated	197,155,865	182,427,835
TOTAL LIABILITIES AND NET ASSETS	\$ 238,589,682	\$ 208,102,490

See notes to consolidated financial statements.

PECKHAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES		
Program revenues	\$ 279,267,416	\$ 239,675,353
Investment return, net	6,487,963	(9,549,856)
Other	694,972	795,292
TOTAL REVENUES	286,450,351	230,920,789
EXPENSES		
Program services		
Rehabilitation and human services	9,688,725	9,538,377
Manufacturing	89,305,129	73,969,118
Contact Center Solutions	100,524,558	76,242,611
Third Party Logistics and Fulfillment Services	38,730,264	36,937,052
Custodial Services	7,612,162	6,568,258
Food services	1,722,019	1,480,471
Foundation contributions	4,000,000	3,000,000
	251,582,857	207,735,887
Support services		
Management and general	20,139,464	17,559,961
TOTAL EXPENSES	271,722,321	225,295,848
CHANGE IN NET ASSETS	14,728,030	5,624,941
NET ASSETS, beginning of year	182,427,835	176,802,894
NET ASSETS, end of year	\$ 197,155,865	\$ 182,427,835

See notes to consolidated financial statements.

PECKHAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2023

	Program Services							Support	Total	
	Rehabilitation and Human Services	Manufacturing	Contact Center Solutions	Third Party Logistics and Fulfillment Services	Custodial Services	Food Services	Foundation Contributions	Indirect and Allocated		Management and General
Salaries, fringes, and related taxes	\$ 7,126,755	\$ 31,911,561	\$ 67,736,069	\$ 17,817,389	\$ 6,830,472	\$ 671,017	\$ -	\$ 2,801,930	\$ 12,169,932	\$ 147,065,125
Direct materials, supplies and services	1,538,437	40,225,074	3,822,680	7,040,038	373,953	453,948	-	261,330	-	53,715,460
Computer amortization and office expense	64,712	71,662	3,987,979	289,674	606	1,681	-	169,765	3,247,861	7,833,940
Professional - legal and accounting	-	1,250	13,553	-	-	-	-	-	126,059	140,862
Consulting fees and temporary help	29,827	126,735	238,282	65,651	29,000	235	-	1,176	1,192,281	1,683,187
Subcontract expense	-	10,065,832	16,235,090	-	-	-	-	-	-	26,300,922
Insurance - board and corporate	5,742	-	-	1,391,566	-	-	-	37,350	262,495	1,697,153
Equipment repairs and maintenance	20,906	312,508	84,208	469,314	35,209	16,565	-	238,730	272,205	1,449,645
Equipment rental	-	8,656	427	905	-	20,145	-	12,553	2,456	45,142
Building repairs	14,613	3,382	100	1,500	-	29,430	-	946,127	748	995,900
Occupancy	44,908	17,558	97,017	7,080	44,419	77,245	-	2,794,729	-	3,082,956
Transportation (including insurance)	58,161	47,076	256,873	60,246	52,732	14,028	-	101,663	166,587	757,366
Telecommunication	47,921	31,374	438,322	20,818	61,744	3,841	-	152,801	250,144	1,006,965
Staff development	49,611	5,122	164,356	21,165	338	230	-	4,655	257,720	503,197
Depreciation	25,972	564,818	1,415,645	548,669	32,409	315,814	-	6,162,865	569,572	9,635,764
Small equipment and furniture purchases	9,020	43,058	52,496	13,833	118,026	732	-	163,916	46,088	447,169
Miscellaneous	122,439	105,650	520,309	51,559	33,254	9,476	-	13,713	1,101,766	1,958,166
Rent and leases	114,821	2,400	2,162,838	1,704,554	-	-	-	5,417,330	1,227	9,403,170
Interest	-	-	-	-	-	-	-	-	232	232
Contributions	-	-	-	-	-	-	4,000,000	-	-	4,000,000
NET TOTAL EXPENSES	9,273,845	83,543,716	97,226,244	29,503,961	7,612,162	1,614,387	4,000,000	19,280,633	19,667,373	271,722,321
Cost of occupancy	414,880	5,761,413	3,298,314	9,226,303	-	107,632	-	(19,280,633)	472,091	-
TOTAL EXPENSES	\$ 9,688,725	\$ 89,305,129	\$ 100,524,558	\$ 38,730,264	\$ 7,612,162	\$ 1,722,019	\$ 4,000,000	\$ -	\$ 20,139,464	\$ 271,722,321

See notes to consolidated financial statements.

PECKHAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2022

	Program Services							Support	Totals	
	Rehabilitation and Human Services	Manufacturing	Contact Center Solutions	Third Party Logistics and Fulfillment Services	Custodial Services	Food Services	Foundation Contributions	Indirect and Allocated		Management and General
Salaries, fringes, and related taxes	\$ 6,727,710	\$ 28,913,399	\$ 51,414,944	\$ 17,296,293	\$ 5,917,096	\$ 563,723	\$ -	\$ 2,547,868	\$ 10,962,868	\$ 124,343,901
Direct materials, supplies and services	1,777,082	32,945,238	3,291,043	6,307,232	321,838	357,815	-	263,897	-	45,264,145
Computer amortization and office expense	91,443	46,107	2,915,398	259,639	1,355	2,079	-	127,214	2,425,959	5,869,194
Professional - legal and accounting	-	1,575	104,516	-	-	-	-	-	121,318	227,409
Consulting fees and temporary help	93,474	53,171	101,223	42,571	26,225	73	-	1,669	1,037,482	1,355,888
Subcontract expense	-	5,554,854	11,144,714	-	-	-	-	-	-	16,699,568
Insurance - board and corporate	15,517	-	-	1,601,051	-	102	-	40,994	330,237	1,987,901
Equipment repairs and maintenance	21,406	363,931	154,208	438,744	23,392	14,246	-	154,075	297,528	1,467,530
Equipment rental	96	10,032	-	767	-	7,861	-	27,656	6,374	52,786
Building repairs	3,703	136	2,842	1,440	-	15,181	-	744,218	-	767,520
Occupancy	59,873	168	10,625	13,083	41,559	74,469	-	2,595,703	4,699	2,800,179
Transportation (including insurance)	44,856	52,470	73,771	30,905	51,249	2,846	-	78,347	102,609	437,053
Telecommunication	44,509	34,341	265,000	25,741	58,160	2,286	-	130,448	273,008	833,493
Staff development	59,719	10,966	38,124	2,062	2,188	-	-	4,034	128,185	245,278
Depreciation	36,627	473,511	1,422,230	509,907	47,692	322,776	-	5,390,256	533,069	8,736,068
Small equipment and furniture purchases	7,081	36,250	35,977	6,525	15,699	10,226	-	92,942	67,156	271,856
Miscellaneous	111,891	194,978	358,634	45,465	32,555	7,038	-	8,818	1,095,645	1,855,024
Rent	113,585	-	2,100,740	1,704,554	-	-	-	5,109,761	-	9,028,640
Interest	-	-	-	-	-	-	-	-	7,415	7,415
Contributions	45,000	-	-	-	-	-	3,000,000	-	-	3,045,000
NET TOTAL EXPENSES	9,253,572	68,691,127	73,433,989	28,285,979	6,539,008	1,380,721	3,000,000	17,317,900	17,393,552	225,295,848
Cost of occupancy	284,805	5,277,991	2,808,622	8,651,073	29,250	99,750	-	(17,317,900)	166,409	-
TOTAL EXPENSES	\$ 9,538,377	\$ 73,969,118	\$ 76,242,611	\$ 36,937,052	\$ 6,568,258	\$ 1,480,471	\$ 3,000,000	\$ -	\$ 17,559,961	\$ 225,295,848

See notes to consolidated financial statements.

PECKHAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities		
Increase in net assets	\$ 14,728,030	\$ 5,624,941
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation/amortization	14,080,948	11,202,069
(Gain) loss on disposal of equipment	-	21,342
Realized and unrealized loss (gain) on investments	(3,144,710)	10,778,256
Accounts and fees receivable	5,649,469	14,936,669
Inventory	(3,012,691)	(4,428,431)
Prepaid expenses	(641,610)	(155,123)
Operating lease right-of-use assets	6,798,163	-
Accounts payable	4,006,017	(554,453)
Accrued payroll and related items	(76,129)	(2,926,531)
Accrued paid time off	207,864	-
Accrued mission alignment incentive	(3,221,327)	3,859,229
Accrued retirement	793,893	275,542
Accrued contributions - Foundation	2,076,397	(682,883)
Operating lease liabilities	(6,729,856)	-
Deferred compensation	27,677	42,606
Other accrued expenses	(11,001)	(14,940)
Total adjustments	16,803,104	32,353,352
Net cash provided by operating activities	31,531,134	37,978,293
Cash flows from investing activities		
Purchases of investments	(7,081,670)	(16,805,518)
Sale of investments	4,701,069	16,046,472
(Purchase) sale of deferred compensation investments	(27,677)	(42,606)
Purchases of property and equipment	(16,688,931)	(10,516,917)
Notes receivable issued	(250,000)	-
Collections on notes receivable	91,941	86,856
Net cash used by investing activities	(19,255,268)	(11,231,713)
Cash flows from financing activities		
Net borrowing (repayment) on bank line of credit	-	(2,000,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,275,866	24,746,580
CASH AND CASH EQUIVALENTS		
Beginning of year	33,546,958	8,800,378
End of year	\$ 45,822,824	\$ 33,546,958
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 232	\$ 7,415

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements are presented on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred.

Principles of Consolidation

The consolidated financial statements include the accounts of Peckham, Inc., its controlled affiliate, Peckham Diversified, and the affiliated organizations in which Peckham, Inc. is the sole corporate member, Peckham Holding Company, Inc., Peckham Holding Company 2, Inc. and Peckham Real Estate Holdings Company, Inc. All material intercompany transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include temporary cash deposits and highly liquid investments, which have an original maturity of three months or less. Cash and cash equivalents held in the investment portfolio are excluded from cash and cash equivalents in reporting cash flows.

Investments and Investment Return

Investments are stated at fair value. Net investment return is included in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses. Investments are recorded as long-term as it is management's intent to hold for long-term purposes and not spend in the next 12 months. See Note 4 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Realized gains or losses on the sale of marketable securities are calculated using the specific-identification method. Unrealized gains and losses represent the change in the fair value of the individual investment for the year, or since the acquisition date, if acquired during the year.

Investments are managed by professional advisors subject to the Organization's investment policy. The degree and concentration of market and credit risk vary by type of investment.

Accounts and Fees Receivable

Accounts receivable represent consideration from third parties, of which the Organization has an unconditional right to receive. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. The valuation allowance was \$55,000 at September 30, 2023 and 2022. Changes to the valuation allowance have not been material to the financial statements. Beginning and ending balances for accounts receivable for 2023 was \$26,379,413 and \$20,729,944, respectively. Beginning and ending balances for accounts receivable for 2022 was \$41,316,082 and \$26,379,413, respectively.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Notes Receivable

Notes receivable include amounts loaned to finance the purchase of land and construction of facilities for a related party. Other notes receivable include amounts loaned for sale of property. Notes receivable are reported at their outstanding unpaid principal balance. Interest is accrued on the unpaid principal balance. The Organization monitors the credit quality of borrowers through an assessment including a review of the borrower's financial information annually. At September 30, the Organization is owed:

	2023	2022
Financing for land and facilities	\$ 1,566,279	\$ 1,651,135
Line of credit - URA	250,000	-
Property sold	258,325	265,410
	2,074,604	1,916,545
Less current portion	(346,410)	(91,295)
	\$ 1,728,194	\$ 1,825,250

The need for an allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. As of September 30, 2023 and 2022, an allowance of \$0 was recorded.

Inventory

Inventory consists primarily of raw materials and finished goods and is valued at the lower of first-in, first-out cost or market. Maintenance, operating and office supplies are not inventoried.

Property and Equipment

Assets are recorded at cost and are depreciated over their estimated useful lives using the straight-line method. Peckham, Inc. and Subsidiaries capitalizes purchases, which are greater than \$5,000. Group purchases of individual items less than \$5,000 may be capitalized.

Long-lived Assets

Peckham, Inc. evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with accounting principles generally accepted in the United States of America.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Organization determines whether an arrangement is or contains a lease at lease inception. On the commencement date, operating leases are recorded as operating lease right-of-use (ROU) assets on the consolidated statements of financial position while finance leases are recorded as finance lease ROU assets. Lease liabilities represent the Organization's contractual obligation to make lease payments over the lease term.

For operating leases, the lease liability is measured as the present value of the lease payments over the lease term using either the rate implicit in the lease, if it is determinable, or a risk-free rate. Operating ROU assets are calculated as the present value of the remaining lease payments plus unamortized initial direct costs and prepayments of rent, less any unamortized lease incentives. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense is recognized on a straight-line basis over the lease term. The Organization has elected to not recognize a ROU asset and lease liability for leases with an initial term of 12 months or less but includes the expense associated with short-term leases in the consolidated statements of activities.

The Organization has elected to utilize its incremental borrowing rate as the discount rate when determining the present value of remaining lease payments for operating leases. Additionally, the Organization has elected to not separate non-lease components from lease components and, instead, to account for each separate lease component and the related non-lease component as a single lease component, across all asset categories. For any related party leasing agreements, the Organization has elected to use written terms and conditions for determining whether a lease exists and, if so, the classification and accounting for that lease.

Accrued Compensated Absences

Benefits are recorded when earned rather than when paid.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets available for use in general operations and not subject to donor or grantor restrictions.

Net Assets with Donor Restrictions - Net assets subject to donor (or grantor) imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose has been accomplished. The Organization does not have net assets with donor restrictions as of September 30, 2023 and 2022.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Revenue Recognition

The Organization generally measures revenue based on the amount of consideration it expects to be entitled for the transfer of goods or services to a customer, then recognizes this revenue when or as the Organization satisfies its performance obligations under the contract, except in transactions where U.S. GAAP provides other applicable guidance. Material revenue streams are discussed below.

Apparel Manufacturing

Apparel manufacturing revenue consists of products manufactured for a fixed or determinable fee based on contractual terms. Product revenue is recognized at a point in time when shipping has occurred, and collectability is probable. The Organization does not offer price concessions or discounts. The Organization is generally not obligated to accept returns, except for defective products.

Contact Center Solutions

Contact center solutions revenue consists of contracts for call centers and is recorded as related expenditures are incurred and services are performed under the provisions of the agreements. Fees are earned over time as services are performed as a series of distinct events. This includes a mix of fees earned on a per contract per month basis and call volume.

Third Party Logistics and Fulfillment Services

Third party logistics and fulfillment services revenue consists of performing specified tasks (typically warehousing and kitting) over the course of the contract. The performance obligation is met as the tasks are performed and revenue is recognized over time as the customer receives the benefit of performance.

Custodial Services

Custodial services revenue consists of cleaning services performed according to the scope and frequency specified in the contracts. The performance obligation is met as services are rendered and revenue is recognized over time as the customer both receives and consumes the benefit of performance.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and Revenue Recognition (continued)

The following schedule shows the Organization's revenues disaggregated according to the timing of transfer of goods or services for the years ended September 30:

	2023	2022
Contract revenue recognized at a point in time		
Apparel manufacturing	\$ 94,765,305	\$ 78,527,691
Other	515,793	428,382
 Contract revenue recognized over time		
Contact Center Solutions	121,734,862	99,066,298
Third Party Logistics and Fulfillment Services	43,700,362	41,557,473
Custodial Services	9,041,003	7,950,121
Other	694,972	758,307
 Total contract revenue	270,452,297	228,288,272
 Grants and contributions	9,510,091	12,182,373
Investment return, net	6,487,963	(9,549,856)
 TOTAL REVENUES	\$ 286,450,351	\$ 230,920,789

Contribution Revenue

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor 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 statement of activities as net assets released from restrictions. Gifts and investment income having donor stipulations that are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Grants revenue results from agreements, typically with government agencies, corporations, or individuals that fund specific activities for the Organization. An agreement is a conditional contribution if its primary purpose is to enable the Organization to provide a service to, or maintain a facility for, the direct benefit of the individuals served or the general public rather than to serve the direct needs of the granting or contracting party. In other words, the agreement is a conditional contribution if any benefit to the granting or contracting party is indirect and insubstantial as compared to the public benefit.

Conditional contributions are recognized as the Organization incurs qualifying expenditures in compliance with rules and regulations established by the grantor, who is typically a state or federal awarding agency. The grants are paid on a cost-reimbursement basis, most often by drawdowns of the grant funds. Any unused funds are forfeited, and if any expenditures are unallowed, the Organization may be required to refund the amounts drawn down. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contribution Revenue (continued)

Donor-restricted contributions that were initially conditional contributions and for which donor-imposed conditions and restrictions are met in the same reporting period are recorded as support without donor restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis on the statement of activities. The statement of functional expenses presents the natural classification of expenses that are allocated to program or supporting functions of the Organization. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on a basis of estimated use of resources. Allocated expenses primarily consist of employee wages and benefits, occupancy, depreciation, and rent and various other expense classifications necessary to support the day-to-day operations of the Organization. All other allocated expenses utilize square footage to attribute expenses to program and support services.

Peckham, Inc. and Subsidiaries does not consolidate certain financially interrelated not-for-profit organizations in the financial statements. Management believes not combining these organizations provides a better presentation of the operations of Peckham, Inc. Accounting principles generally accepted in the United States of America require consolidation of majority owned subsidiaries and all financially interrelated not-for-profit organizations in which Peckham, Inc. and Subsidiaries has control and economic interest, as defined. For Peckham, Inc. and Subsidiaries these entities would include the following:

Peckham Housing Corporation (Capital Gardens) - A not-for-profit housing corporation

Peckham Nonprofit Housing Corporation (Independence Square) - A not-for-profit housing corporation

University Rehabilitation Alliance (URA) d/b/a Origami - A not-for-profit joint venture with Michigan State University, of which 50% is under common control with Peckham, Inc.

Peckham Community Partnership Foundation - A not-for-profit foundation

NOTE 2 - NATURE OF ORGANIZATION, RISKS, AND UNCERTAINTIES

Peckham Vocational Industries, Inc. (doing business as) Peckham, Inc. is a nonprofit organization headquartered in Lansing, Michigan with several locations throughout primarily Michigan and other states and is organized under the provisions of Section 501(c)(3) of the Internal Revenue Code, and as such it is not subject to income taxes. The nature of Peckham, Inc. and Subsidiaries is to provide vocational rehabilitation services to persons with disabilities, which will assist them to achieve their maximum level of vocational, economic and social development. Such services are provided to assist individuals to become as independently functioning as possible and include services such as vocational evaluation, work adjustment training, which include manufacturing, custodial, call service and other contact center solutions, community placement and supportive employment, housing and educational assistance and contributions to the Peckham Community Partnership Foundation.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - NATURE OF ORGANIZATION, RISKS, AND UNCERTAINTIES (continued)

The above services are recorded in the following *major programs*:

The **Rehabilitation and Human Services Program** offers more than 25 different rehabilitation and human services programs from art to career planning, pre-employment screening to facility-based training, youth programs to organizational employment and residential services. A wide range of services are offered with a focus on job readiness skills, career exploration, resume development, interviewing, guided job searches. Programs also help develop interpersonal and coping skills to enhance job retention.

The **Manufacturing Program** focuses on providing meaningful vocational training to persons with disabilities in the field of manufacturing. Individuals in this program produce numerous products, including manufacturing apparel and related products, automotive assembly, specializing in small assembly work, specialty jobs and light manufacturing.

The **Contact Center Solutions Program** continues to develop diverse, technology-based office environment jobs for persons with disabilities. Training opportunities for clients include contact centers, mailing and fulfillment, records management, administrative support, document management, mailroom, clerical support and other contact center solutions.

The **Third Party Logistics and Fulfillment Services Program** offers supply chain training and related job opportunities to persons with disabilities. Clients manage inventory, pick, pack, and prepare hundreds of packages each day for distribution, using the latest technology and processes to ensure quality and on time delivery.

The **Custodial Services Program** focuses on providing environmental training opportunities to persons with disabilities, including advanced training in the latest equipment, products and specialty cleaning services. Clients are trained, tested and certified in general office cleaning, rest room cleaning, carpet cleaning and restoration, hard floor maintenance and safety.

The **Food Services Program** offers cafeteria/catering and farming training and related job opportunities to persons with disabilities. Cafeteria/catering clients help inventory, prepare food, maintain kitchen equipment, learn about nutrition and food labels, and serve more than 300 meals a day at two different Peckham locations. They help prepare and cater more than 200 meetings/events annually. Farming clients help plant, weed, water, harvest and prepare produce, herbs and flowers for sale to Peckham staff and the public. They maintain farm equipment and farm buildings. They learn about sustainable, organic and eco-friendly farming techniques as well as integrated pest management systems.

The **Foundation Program** focuses on contributions to the Peckham Community Partnership Foundation whose purpose is to provide support to Peckham, Inc. The **Peckham Community Partnership Foundation** provides support to Peckham, Inc., by funding services and programs where little other funding exists, filling critical gaps that can make a difference in the lives of those striving for greater independence. The Peckham Community Partnership Foundation supports a variety of program initiatives, while also expanding its efforts to provide community enrichment, volunteerism and self-empowerment opportunities for people with disabilities.

Peckham Diversified is a nonprofit corporation organized under the provisions of Section 501(c)(3) of the Internal Revenue Code, and as such is not subject to income taxes. The nature of the organization is to provide a wide range of opportunities to maximize human potential for persons striving for independence and self-sufficiency.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - NATURE OF ORGANIZATION, RISKS AND UNCERTAINTIES (continued)

Peckham Holding Company, Inc. is a nonprofit corporation organized under the provisions of Section 501(c)(2) of the Internal Revenue Code, and as such is not subject to income taxes. The nature of the Corporation is to acquire, own, develop, rent and operate real estate to Peckham, Inc. The Corporation is organized exclusively to hold, own, operate, and lease property to Peckham, Inc. its sole member.

Peckham Holding Company 2, Inc. is a nonprofit corporation organized under the provisions of Section 501(c)(2) of the Internal Revenue Code, and as such is not subject to income taxes. The nature of the Corporation is to acquire, own, develop, rent and operate real estate to Peckham, Inc. The Corporation is organized exclusively to hold, own, operate, and lease property to Peckham, Inc. its sole member.

Peckham Real Estate Holdings Company, Inc. is a nonprofit corporation organized under the provisions of Section 501(c)(2) of the Internal Revenue Code, and as such is not subject to income taxes. The nature of the Corporation is to acquire, own, develop, rent and operate real estate to Peckham, Inc. The Corporation is organized exclusively to hold, own, operate, and lease property to Peckham, Inc. its sole member.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Financial instruments which potentially subject the company to concentrations of credit risk consist principally of cash and cash equivalents, investments and trade receivables.

Peckham, Inc. and Subsidiaries places its cash and cash equivalents with FDIC insured financial institutions. Although such investments and cash balances exceeded the federally insured limits at certain times during the year and at year end, they are, in the opinion of management, subject to minimal risk.

Peckham, Inc. and Subsidiaries has established policies for extending credit and provides an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Concentrations of credit risk with respect to trade receivables is primarily with Peckham, Inc. and Subsidiaries' three largest customers.

Peckham, Inc. has two customers that generate revenue in excess of 10% of total program revenue. These customers represent revenue of 41% and 33% totaling approximately 74% of total program revenue in 2023. Two customers represented 51% of accounts receivable at September 30, 2023. In 2022, two customers in total represented 72% of revenue and 56% of accounts receivable. In addition, in 2023, Peckham, Inc. and Subsidiaries purchased approximately 19% of their required materials from one vendor. In 2022 one vendor was 25%.

In the preparation of tax returns, tax positions are taken based on interpretation of federal, state, and local income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified or recorded as uncertain tax positions. Federal, state, and local tax returns generally remain open for examination by the various taxing authorities for a period of three to four years.

Peckham, Inc. and Subsidiaries evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through December 21, 2023, which was the date the financial statements were available for issue.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - NATURE OF ORGANIZATION, RISKS AND UNCERTAINTIES (continued)

Peckham, Inc. and Subsidiaries invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements. Investments in marketable securities represent diversified holdings of stocks, bonds, mutual funds and other securities.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The following reflects the Organization's financial assets as of September 30, 2023 and 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position, comprise the following:

	2023	2022
Cash and cash equivalents	\$ 45,822,824	\$ 33,546,958
Investments	73,724,165	68,198,854
Accounts and fees receivable, net	20,674,944	26,324,413
Current portion of notes receivable	346,410	91,295
Financial assets available to meet cash needs for general expenditures within one year	\$ 140,568,343	\$ 128,161,520

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Included in financial assets available are investments that are considered long term on the statement of financial position but could be used to meet general expenditures. The Organization has various sources of liquidity at its disposal, including cash and lines of credit. See Note 8 for further explanations of these lines of credit.

NOTE 4 - FAIR VALUE MEASUREMENTS AND INVESTMENTS

At September 30, investments are reported in the statements of financial position as follows:

	2023	2022
Investments - noncurrent	\$ 73,724,165	\$ 68,198,854
Deferred compensation investments	393,072	365,395
Total investments	\$ 74,117,237	\$ 68,564,249

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FAIR VALUE MEASUREMENTS AND INVESTMENTS (continued)

The Organization is required to disclose amounts within a framework established for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are described below.

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in the active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

The asset or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2023 and 2022.

Mutual Funds: Valued at the daily closing prices reported by the fund. Funds held by the Organization are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Organization are deemed to be actively traded.

Equity Securities: Valued at the price reported on the active market on which the individual securities are traded.

Debt Securities: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yield currently available for securities of issuers with similar credit ratings.

Insurance Contracts: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Hedge Funds and Private Equity Funds: Valued at the net asset value (NAV) of the units held at year end.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FAIR VALUE MEASUREMENTS AND INVESTMENTS (continued)

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, while 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.

From time to time, changes in valuation techniques may result in reclassification of an investment's assigned level within the hierarchy.

The following are market value summaries by the level of the inputs used, as of September 30, 2023, in evaluating Peckham, Inc. and Subsidiaries' assets carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities.

	2023				Total
	Cost	Fair Value			
		Level 1	Level 2	Level 3	
Cash and money markets	\$ 5,870,847	\$ 5,870,847	\$ -	\$ -	\$ 5,870,847
Mutual funds	11,827,901	11,614,909	-	-	11,614,909
Equity securities	24,248,639	30,817,608	-	-	30,817,608
Debt securities	2,063,908	-	1,824,418	-	1,824,418
Insurance contracts	4,035,497	-	4,275,737	-	4,275,737
 Total investments in the fair value hierarchy	 48,046,792	 <u>\$ 48,303,364</u>	 <u>\$ 6,100,155</u>	 <u>\$ -</u>	 54,403,519
 Investments measured at net asset value	 <u>17,923,909</u>				 <u>19,713,718</u>
 Total investments	 <u>\$ 65,970,701</u>				 <u>\$ 74,117,237</u>
 Unrealized gain (loss)					 <u>\$ 8,146,536</u>

The following is a market value summary by the level of inputs used, as of September 30, 2022.

	2022				Total
	Cost	Fair Value			
		Level 1	Level 2	Level 3	
Cash and money markets	\$ 6,666,743	\$ 6,666,743	\$ -	\$ -	\$ 6,666,743
Mutual funds	15,065,400	14,699,492	-	-	14,699,492
Equity securities	25,318,235	27,635,969	-	-	27,635,969
Debt securities	2,070,474	-	1,782,882	-	1,782,882
Insurance contracts	4,035,497	-	4,070,071	-	4,070,071
 Total investments in the fair value hierarchy	 53,156,349	 <u>\$ 49,002,204</u>	 <u>\$ 5,852,953</u>	 <u>\$ -</u>	 54,855,157
 Investments measured at net asset value	 <u>11,135,538</u>				 <u>13,709,092</u>
 Total investments	 <u>\$ 64,291,887</u>				 <u>\$ 68,564,249</u>
 Unrealized gain (loss)					 <u>\$ 4,272,362</u>

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FAIR VALUE MEASUREMENTS AND INVESTMENTS (continued)

The following tables summarize investments measured at fair value based on NAV per share as of September 30, 2023 and 2022:

<u>September 30, 2023</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Hedge funds	\$ 2,417,057	\$ -	Varies	Varies
Private equity funds	<u>17,296,661</u>	<u>11,435,624</u>	Varies	Varies
	<u>\$ 19,713,718</u>	<u>\$ 11,435,624</u>		

<u>September 30, 2022</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Hedge funds	\$ 2,338,538	\$ -	Varies	Varies
Private equity funds	<u>11,370,554</u>	<u>11,881,294</u>	Varies	Varies
	<u>\$ 13,709,092</u>	<u>\$ 11,881,294</u>		

The insurance contracts have significant early termination fees. It is management's intent to hold it to maturity to avoid any such fees.

Investment return for the years ended September 30 are as follows:

	<u>2023</u>	<u>2022</u>
Interest and dividends, net of fees	\$ 3,343,253	\$ 1,228,400
Realized and unrealized gain (loss)	<u>3,144,710</u>	<u>(10,778,256)</u>
	<u>\$ 6,487,963</u>	<u>\$ (9,549,856)</u>

NOTE 5 - INVENTORY

Inventory is comprised of the following at September 30:

	<u>2023</u>	<u>2022</u>
Apparel and other raw materials	\$ 13,530,947	\$ 12,647,321
Finished goods and other	<u>5,912,391</u>	<u>3,783,326</u>
	<u>\$ 19,443,338</u>	<u>\$ 16,430,647</u>

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - PROPERTY AND EQUIPMENT

Major classes of property and equipment at September 30 consist of the following:

	Years of Useful Life	2023	2022
Land		\$ 3,823,815	\$ 3,823,815
Buildings and leasehold improvements	5 - 40	92,875,143	86,372,460
Equipment and software	3 - 15	102,453,353	92,746,933
Furniture and fixtures	5 - 10	7,432,379	7,290,417
Vehicles	4 - 7	1,091,919	1,038,135
Land improvements	5 - 40	2,559,935	2,275,853
		210,236,544	193,547,613
Less accumulated depreciation		<u>(148,916,725)</u>	<u>(134,835,777)</u>
Net property and equipment		<u>\$ 61,319,819</u>	<u>\$ 58,711,836</u>

Depreciation and amortization of software expense was \$12,312,200 in 2023 and \$11,202,069 in 2022.

Certain properties have been sold, at September 30, 2023 and 2022, \$258,325 and \$265,410 are recorded as note receivables for the sale of the properties, respectively. The principal balances are due November 2023 and November 2040. Other notes receivable are disclosed in Note 11.

NOTE 7 - LEASES

Peckham, Inc. rents warehouse and office space from unrelated parties under operating lease agreements with varying terms.

In addition, Peckham, Inc. leases warehouse and office space from its affiliated real estate holding entities. These arrangements operate on a month-to-month basis and have been eliminated in the consolidated financial statements.

The components of lease expense are as follows for September 30, 2023:

Operating lease expense	\$ 7,282,641
Short-term lease expense	<u>56,307</u>
Total	<u>\$ 7,338,948</u>

Supplemental cash flow information related to leases are as follows for September 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 7,214,334
Weighted-average remaining lease term in years for operating leases	2.12
Weighted-average discount rate for operating leases	3.10%

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - LEASES (continued)

Future minimum lease payments and reconciliations to the consolidated statement of financial position at September 30, 2023, are as follows:

Year Ending September 30,	Operating Leases
2024	\$ 6,941,887
2025	3,768,837
2026	995,360
2027	663,573
Total undiscounted cash flows	12,369,657
Less: present value discount	(413,886)
Total lease liabilities	\$ 11,955,771

Total lease liabilities as presented in the consolidated statements of financial position.

Current portion of operating lease liabilities	\$ 6,669,817
Operation lease liabilities, less current portion	5,285,954
	\$ 11,955,771

NOTE 8 - LINES OF CREDIT

Peckham, Inc. and Subsidiaries has a \$15,000,000 line of credit from a bank. The line of credit is collateralized by the investment portfolio of Peckham, Inc. and Subsidiaries administered by the bank and bears interest for 2023 at the SOFR rate plus .70 percentage points and for 2022 at the SOFR rate plus .70 percentage points. The balance outstanding on the line-of-credit was \$0 and \$0 as of September 30, 2023 and 2022, respectively. Interest rates at year end vary based on the amount outstanding, the ranges were between (3.25%) and (6.03%) and between (.85%) and (3.69%), for the years ended September 30, 2023 and 2022, respectively. The line of credit expires on April 30, 2024.

Peckham, Inc. and Subsidiaries has a \$20,000,000 line of credit from Peckham Community Partnership Foundation. There was no balance outstanding at September 30, 2023 and 2022.

Interest expense was \$232 and \$7,415 for the years ended September 30, 2023 and 2022.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of business, the Organization is a party to claims and legal actions by vendors and other parties. The Organization's policy is to accrue for amounts related to these claims and legal actions if it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. The consolidated financial statements reflect any liabilities that meet this policy.

NOTE 10 - RETIREMENT AND BENEFIT PLANS

Peckham, Inc. and Subsidiaries maintains a qualified defined contribution retirement plan for substantially all full-time employees. Peckham, Inc. and Subsidiaries accrues discretionary retirement contributions. Retirement expense for this plan was \$4,075,356 and \$3,230,161 in 2023 and 2022, respectively. Retirement expenses may be less than accrued contributions due to forfeitures. Peckham, Inc. also maintains a 403(b) plan. There are no employer contributions to the 403(b) plan.

Peckham, Inc. and Subsidiaries maintain a self-insured health care plan (for substantially all full-time employees). Other employees are covered under fully insured plans. Peckham, Inc. and Subsidiaries has contracted with a third party insurance carrier to provide \$250,000 per participant in stop loss coverage. A liability estimate of \$1,600,000 and \$1,600,000 for incurred but not reported claims was recorded at September 30, 2023 and 2022, respectively.

Peckham, Inc. and Subsidiaries has entered into a deferred compensation agreement with certain key individuals. Under the agreement, the participants are entitled to deferred compensation upon separation from the company. Deferred compensation expense amounted to \$0 for each of the years ended September 30, 2023 and 2022. Deferred compensation expense includes earnings on the funded investment.

NOTE 11 - AFFILIATE TRANSACTIONS

Peckham, Inc. provides certain administrative services to Peckham Housing Corporation (Capital Gardens), Peckham Nonprofit Housing Corporation (Independence Square), House of Ruth, and Origami. Peckham, Inc. was reimbursed for these services for the year ended September 30 as follows:

	2023	2022
Peckham Housing Corporation (Capital Gardens)	\$ 112,547	\$ 97,832
Peckham Nonprofit Housing Corporation (Independence Square)	138,149	121,045
House of Ruth	266,288	264,132
Origami	124,842	120,324

At September 30, Peckham, Inc. is owed:

	2023	2022
Peckham Housing Corporation (Capital Gardens)	\$ 89,796	\$ 65,972
Peckham Nonprofit Housing Corporation (Independence Square)	224,589	170,865
House of Ruth	40,168	108,642

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - AFFILIATE TRANSACTIONS (continued)

Peckham, Inc., Peckham Housing Corporation, Peckham Nonprofit Housing Corporation, and Origami have common board members.

In 2007, Peckham, Inc. loaned \$1,300,000 to Origami for purchase of land, construction and equipping of a building, and initial operating costs. Origami is to repay this loan in monthly payments of \$14,463 including interest at 5.5% which amounted to \$88,695 and \$93,225 in interest income for the years ended September 30, 2023 and 2022, respectively. In 2015, Peckham, Inc. committed an additional \$1,500,000 to Origami for the construction of additional facilities. The note receivable balance was \$1,566,279 and \$1,651,135 at September 30, 2023 and 2022, respectively. The current portion was \$89,642 and \$84,856 at September 30, 2023 and 2022, respectively. A trade receivable balance of \$11,187 and \$10,056 was also owed by Origami to Peckham, Inc. for the years ended September 30, 2023 and 2022, respectively.

In addition, Peckham, Inc. has extended a revolving loan agreement to Origami allowing for up to \$1 million to be drawn at 3%. Amounts were outstanding were \$250,000 and \$0 as of September 30, 2023 and 2022, respectively.

Peckham, Inc. has approved a contribution to the Peckham Community Partnership Foundation (PCPF) of \$4,000,000 in 2023 and \$3,000,000 in 2022. At September 30, 2023, \$3,804,716 remains unpaid. Peckham, Inc. routinely incurs costs on behalf of the PCPF and is offsetting costs incurred against the unpaid balance. Grants made to Peckham, Inc. from PCPF amounted to \$1,875,933 and \$3,632,569 for the years ended September 30, 2023 and 2022, respectively.

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended September 30, 2023, Peckham, Inc. and Subsidiaries implemented the following new pronouncement: Financial Accounting Standards Board (the "FASB") Accounting Standard Update ("ASU") No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02").

Summary:

On February 25, 2016, the FASB issued ASU 2016-02 and thereafter issued additional ASUs to clarify and update the guidance in ASU 2016-02 (collectively, the "new leases standard"). The objective of ASU 2016-02 is to increase transparency and comparability in financial reporting by requiring statement of financial position recognition of leases and note disclosure of certain information about lease arrangements. The Organization adopted the new lease standard using the effective date method of the modified retrospective transition, under which amounts in prior periods presented were not restated. For adoption, the Organization elected to not reassess (i) whether any existing contracts contain leases, (ii) initial direct costs, and (iii) and classification of existing leases.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE (continued)

The restatement of the beginning of the year had no impact on net assets. The change in assets and liabilities are as follows:

	Assets	Liabilities
Balances as of September 30, 2022, as previously stated	\$ 208,102,490	\$ 25,674,655
Adoption of FASB ASU 2016-02	18,685,627	18,685,627
Balances as of October 1, 2022, as restated	\$ 226,788,117	\$ 44,360,282

NOTE 13 - SUBSEQUENT EVENTS

During the year ended September 30, 2023, Peckham, Inc. entered into an agreement to lease office space from an unrelated party under an operating lease agreement which commenced October 1, 2023. The lease agreement expires 130 months after the commencement date unless the option to extend the lease for a five-year term is exercised. Monthly lease payments range from \$128,406 to \$161,425 per month over the lease term. Rent is abated for the first 10 months of the lease term. The approximate value of the right-of-use asset and lease liability at the commencement date is \$12,250,066.

On October 30, 2023, Peckham, Inc. entered into an agreement to lease office space from an unrelated party under an operating lease agreement which commenced November 1, 2023. The lease agreement expires 63 months after the commencement date unless the option to extend the lease for a five-year term is exercised. Monthly lease payments range from \$195,779 to \$226,961 per month over the lease term. Rent is abated for the first three months of the lease term. The approximate value of the right-of-use asset and lease liability at the commencement date is \$10,616,915.

SUPPLEMENTARY INFORMATION

PECKHAM, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2023

	Peckham, Inc.	Peckham Diversified	Peckham Holding Company, Inc.	Peckham Holding Company 2, Inc.	Peckham Real Estate Holdings Company, Inc.	Eliminations	Total
ASSETS							
Current assets							
Cash and cash equivalents	\$ 45,573,819	\$ 249,005	\$ -	\$ -	\$ -	\$ -	\$ 45,822,824
Accounts and fees receivable less allowance for doubtful accounts of \$55,000	20,674,944	-	-	-	-	-	20,674,944
Accounts receivable - related party	19,448,895	-	-	-	-	(19,448,895)	-
Inventory	19,377,438	65,900	-	-	-	-	19,443,338
Prepaid expenses	3,195,985	53,467	-	-	-	-	3,249,452
Current portion of notes receivable	346,410	-	-	-	-	-	346,410
Total current assets	108,617,491	368,372	-	-	-	(19,448,895)	89,536,968
Noncurrent assets							
Investment in holding companies	(3,067,916)	-	-	-	-	3,067,916	-
Investments	73,724,165	-	-	-	-	-	73,724,165
Deferred compensation investments	393,072	-	-	-	-	-	393,072
Notes receivable - less current portion	1,648,918	-	-	-	79,276	-	1,728,194
Property and equipment, net of accumulated depreciation	29,237,419	-	13,425,090	4,405,184	14,252,126	-	61,319,819
Operating lease right-of-use assets	11,887,464	-	-	-	-	-	11,887,464
Total noncurrent assets	113,823,122	-	13,425,090	4,405,184	14,331,402	3,067,916	149,052,714
TOTAL ASSETS	\$ 222,440,613	\$ 368,372	\$ 13,425,090	\$ 4,405,184	\$ 14,331,402	\$ (16,380,979)	\$ 238,589,682

PECKHAM, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2023

	Peckham, Inc.	Peckham Diversified	Peckham Holding Company, Inc.	Peckham Holding Company 2, Inc.	Peckham Real Estate Holdings Company, Inc.	Eliminations	Total
LIABILITIES AND NET ASSETS							
LIABILITIES							
Current liabilities							
Accounts payable	\$ 9,580,496	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,580,496
Accounts payable - related party	-	8,909,343	4,165,000	3,075,552	3,299,000	(19,448,895)	-
Accrued payroll and related items	2,437,182	2,106	-	-	-	-	2,439,288
Accrued vacation pay	3,342,718	-	-	-	-	-	3,342,718
Accrued mission alignment incentive	4,174,376	16,200	-	-	-	-	4,190,576
Accrued pension	4,096,466	29,239	-	-	-	-	4,125,705
Accrued contributions - Foundation	3,804,716	-	-	-	-	-	3,804,716
Incurred but not reported medical claims	1,600,000	-	-	-	-	-	1,600,000
Other accrued expenses	1,346	-	129	-	-	-	1,475
Current portion of operating lease liabilities	6,669,817	-	-	-	-	-	6,669,817
Total current liabilities	35,707,117	8,956,888	4,165,129	3,075,552	3,299,000	(19,448,895)	35,754,791
Noncurrent liabilities							
Operating lease liabilities, less current portion	5,285,954	-	-	-	-	-	5,285,954
Deferred compensation	393,072	-	-	-	-	-	393,072
Total noncurrent liabilities	5,679,026	-	-	-	-	-	5,679,026
TOTAL LIABILITIES	41,386,143	8,956,888	4,165,129	3,075,552	3,299,000	(19,448,895)	41,433,817
NET ASSETS							
Without donor restrictions - undesignated	181,054,470	(8,588,516)	9,259,961	1,329,632	11,032,402	3,067,916	197,155,865
TOTAL LIABILITIES AND NET ASSETS	\$ 222,440,613	\$ 368,372	\$ 13,425,090	\$ 4,405,184	\$ 14,331,402	\$ (16,380,979)	\$ 238,589,682

PECKHAM, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2023

	Peckham, Inc.	Peckham Diversified	Peckham Holding Company, Inc.	Peckham Holding Company 2, Inc.	Peckham Real Estate Holdings Company, Inc.	Eliminations	Total
REVENUES							
Program revenues	\$ 265,858,887	\$ 13,408,529	\$ -	\$ -	\$ -	\$ -	\$ 279,267,416
Investment return, net	6,482,400	-	-	-	5,563	-	6,487,963
Other	4,821,436	-	900,000	960,000	2,480,812	(8,467,276)	694,972
TOTAL REVENUES	277,162,723	13,408,529	900,000	960,000	2,486,375	(8,467,276)	286,450,351
EXPENSES							
Program services							
Rehabilitation and human services	9,775,569	-	27,169	11,514	19,246	(144,773)	9,688,725
Manufacturing	84,842,318	7,602,468	247,715	104,010	173,851	(3,665,233)	89,305,129
Contact Center Solutions	101,599,840	-	285,300	518,252	202,099	(2,080,933)	100,524,558
Third Party Logistics and Fulfillment Services	39,006,656	-	86,435	36,631	61,229	(460,687)	38,730,264
Custodial Services	7,634,321	-	-	-	-	(22,159)	7,612,162
Food services	1,737,039	-	18,073	2,006	3,349	(38,448)	1,722,019
Foundation contributions	4,000,000	-	-	-	-	-	4,000,000
Support services							
Management and general	20,197,899	1,996,608	-	-	-	(2,055,043)	20,139,464
TOTAL EXPENSES	268,793,642	9,599,076	664,692	672,413	459,774	(8,467,276)	271,722,321
CHANGE IN NET ASSETS	8,369,081	3,809,453	235,308	287,587	2,026,601	-	14,728,030
NET ASSETS, beginning of year	172,685,389	(12,397,969)	9,120,653	1,402,044	10,856,613	761,105	182,427,835
Transfers of assets	-	-	(96,000)	(359,999)	(1,850,812)	2,306,811	-
NET ASSETS, end of year	\$ 181,054,470	\$ (8,588,516)	\$ 9,259,961	\$ 1,329,632	\$ 11,032,402	\$ 3,067,916	\$ 197,155,865

PECKHAM, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed through Capital Area Michigan Works Supplemental Nutrition Assistance Program Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	FA-PVINGHAM-FY23	\$ 46,705
Total U.S. Department of Agriculture			46,705
<u>U.S. Department of Housing and Urban Development</u>			
Direct grants			
Continuum of Care Program	14.267	MI0632L5F231800	22,387
	14.267	MI0732L5F232100	112,321
Total U.S. Department of Housing and Urban Development			134,708
<u>U.S. Department of Justice</u>			
Passed through Institute for Educational Leadership Juvenile Mentoring Program	16.726	15PJDP-21-GG-03596-MENT	82,256
Total U.S. Department of Justice			82,256
<u>U.S. Department of Labor</u>			
Passed through Capital Area Michigan Works WIOA Cluster			
WIOA Adult Program	17.258	AD-PVIINGHAM-PY22	264,466
WIOA Adult Program	17.258	AD-PVIINGHAM-PY23	88,093
WIOA Adult Program	17.258	AD-PVIEATON-PY22	153,726
WIOA Adult Program	17.258	AD-PVIEATON-PY23	43,776
WIOA Adult Program	17.258	AD-PVICLINTON-PY22	112,683
WIOA Adult Program	17.258	AD-PVICIINTON-PY23	31,537
WIOA Training Support	17.258	TRAIN-PVICLINTON2023	30,375
WIOA Training Support	17.258	TRAIN-PVIEATON2023	48,938
WIOA Training Support	17.258	TRAIN-PVI2023	89,437
Total ALN 17.258			863,031
WIOA Dislocated Worker Formula Grants	17.278	DW-PVIINGHAM-PY22	92,011
WIOA Dislocated Worker Formula Grants	17.278	DW-PVIINGHAM-PY23	31,452
WIOA Dislocated Worker Formula Grants	17.278	DW-PVIEATON-PY22	52,291
WIOA Dislocated Worker Formula Grants	17.278	DW-PVIEATON-PY23	15,354
WIOA Dislocated Worker Formula Grants	17.278	DW-PVICLINTON-PY22	56,095
WIOA Dislocated Worker Formula Grants	17.278	DW-PVICLINTON-PY23	14,822
Total ALN 17.278			262,025
WIOA Youth Activities	17.259	YTH-PVI-PY22	502,539
WIOA Youth Activities	17.259	YTH-PVI-PY23	107,598
WIOA Youth Activities	17.259	YTH-PVI-SYP22	40,381
WIOA Youth Activities	17.259	YTH-PVI-SYP23	13,489
Total ALN 17.259			664,007
Total WIOA Cluster			1,789,063
Total passed through Capital Area Michigan Works			1,789,063
Growth Opportunities	17.27	YF-39533-23-60-A-26	413,998
Total U.S. Department of Labor			2,203,061

The accompanying notes are an integral part of this schedule.

PECKHAM, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
Passed through State of Michigan			
AmeriCorps	94.006	21-MCSC-MACFF-04	<u>\$ 117,009</u>
Passed through Capital Area Michigan Works			
Temporary Assistance for Needy Families	93.558	PATH-PVIINGHAM-FY23	875,925
	93.558	PATH-PVIEATON-FY23	164,977
	93.558	PATH-PVICLINTON-FY23	<u>100,647</u>
 Total ALN 93.558			 <u>1,141,549</u>
 Total U.S. Department of Health and Human Services			 <u>1,258,558</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u><u>\$ 3,725,288</u></u>

The accompanying notes are an integral part of this schedule.

PECKHAM, INC. AND SUBSIDIARIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Peckham, Inc. and Subsidiaries under programs of the federal government for the year ended September 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Peckham, Inc. and Subsidiaries, it is not intended to and does not present the financial position, changes in net assets or cash flows of Peckham, Inc. and Subsidiaries.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Peckham, Inc. and Subsidiaries has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - PASS-THROUGH FUNDS

The Organization did not pass-through any federal funds to subrecipients.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Peckham, Inc. and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Peckham, Inc. and Subsidiaries, which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2023, which was qualified because the Organization does not consolidate all financially interrelated not-for-profit organizations in the consolidated financial statements.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Peckham, Inc. and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peckham, Inc. and Subsidiaries internal control. Accordingly, we do not express an opinion on the effectiveness of the Peckham, Inc. and Subsidiaries internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Peckham, Inc. and Subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costeiran PC

December 21, 2023



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Peckham, Inc. and Subsidiaries

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Peckham, Inc. and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Peckham, Inc. and Subsidiaries' major federal programs for the year ended September 30, 2023. Peckham, Inc. and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Peckham, Inc. and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Peckham, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Peckham, Inc. and Subsidiaries' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Peckham, Inc. and Subsidiaries' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Peckham, Inc. and Subsidiaries' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Peckham, Inc. and Subsidiaries' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Peckham, Inc. and Subsidiaries' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Peckham, Inc. and Subsidiaries' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maney Costeiran PC

December 21, 2023

**PECKHAM, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principles:

Qualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR Section 200.516(a)?

 Yes X No

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
17.258, 17.259, 17.278	Work Innovation and Opportunity Act Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**PECKHAM, INC. AND SUBSIDIARIES
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

There were no findings reported for the year ended September 30, 2022.