

**MACDONALD TRAINING CENTER, INC.
AND AFFILIATES**

**Combined Financial Statements, Supplementary Financial
Information and Reports as Required by the
Comptroller General of the United States**

**September 30, 2016 and 2015
(With Independent Auditor's Report Thereon)**

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Table of Contents

	<u>Page</u>
AUDITED FINANCIAL STATEMENTS	
Independent Auditor's Report on Combined Financial Statements and Supplementary Financial Information	1 - 2
Combined Financial Statements:	
Combined Statements of Financial Position	3 - 4
Combined Statements of Unrestricted Support and Revenue, Expenses and Other Changes in Unrestricted Net Assets	5
Combined Statements of Changes in Net Assets	6
Combined Statement of Functional Expenses	7
Combined Statements of Cash Flows	8
Notes to Combined Financial Statements	9 - 22
SUPPLEMENTARY FINANCIAL INFORMATION	
Combining Statement of Financial Position	23
Combining Statement of Changes in Net Assets	24
INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 - 26

AUDITED FINANCIAL STATEMENTS



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**Independent Auditor's Report on Combined Financial Statements
and Supplementary Financial Information**

The Board of Directors
MacDonald Training Center, Inc. and Affiliates:

Report on the Financial Statements

We have audited the accompanying combined financial statements of MacDonald Training Center, Inc. and Affiliates (a nonprofit organization) which comprise the combined statements of financial position as of September 30, 2016 and 2015, and the related combined statements of unrestricted support and revenue, expenses and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, the related combined statement of functional expenses for the year ended September 30, 2016, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. 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 General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of MacDonald Training Center, Inc. and Affiliates as of September 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended, and their functional expenses for the year ended September 30, 2016, in conformity with accounting principles generally accepted in the United States.

Report on Summarized Comparative Information

We have previously audited the MacDonald Training Center, Inc. and Affiliates combined financial statements, and our report dated February 4, 2016 expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the combined financial statements of MacDonald Training Center, Inc. and Affiliates taken as a whole. The supplementary financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2017 on our consideration of MacDonald Training Center, Inc. and Affiliates' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 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 MacDonald Training Center, Inc. and Affiliates' internal control over financial reporting and compliance.

MAYER HOFFMAN MCCANN P.C.

February 6, 2017
Clearwater, Florida

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Combined Statements of Financial Position

September 30, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents (Note 5)	\$ 174,871	191,739
Accounts receivable:		
Grants and funding sources	15,238	35,215
Medwaiver and private pay, net of allowance for doubtful accounts of \$17,630 and \$23,920 in 2016 and 2015, respectively	226,152	184,084
Commercial, net of allowance for doubtful accounts of \$5,342 and \$2,080 in 2016 and 2015, respectively	316,077	319,494
Other	12,494	25,645
Current portion of contributions receivable (Note 4)	135,867	96,698
Receivable under charitable remainder trust (Notes 13 and 14)	84,054	-
Inventories	117,564	149,652
Prepaid expenses and other current assets	<u>52,520</u>	<u>58,047</u>
Total current assets	1,134,837	1,060,574
Investments (Notes 2, 7 and 14)	1,980,548	2,072,305
Real estate investment	862,000	862,000
Contributions receivable, less current portion (Note 4)	168,324	168,269
Receivable under charitable remainder trust (Notes 13 and 14)	-	68,070
Property and equipment, net (Notes 3, 7 and 8)	3,435,625	3,456,704
Other assets	<u>33,549</u>	<u>35,888</u>
	\$ <u><u>7,614,883</u></u>	<u><u>7,723,810</u></u>

Liabilities and Net Assets	2016	2015
Current liabilities:		
Short-term notes payable (Note 6)	\$ 211,632	70,000
Current installments of capital lease obligations (Note 8)	7,198	7,874
Current installments of long-term debt (Note 7)	34,103	32,852
Accounts payable and accrued expenses	473,478	516,698
Deferred revenue	78,830	65,692
	<u>805,241</u>	<u>693,116</u>
Total current liabilities		
Deposit liability (Notes 3 and 8)	1,352,709	1,580,227
Capital lease obligations, less current installments (Note 8)	10,561	17,607
Long-term debt, excluding current installments (Note 7)	343,987	378,329
	<u>2,512,498</u>	<u>2,669,279</u>
Total liabilities		
Net assets:		
Unrestricted:		
Undesignated	155,920	317,650
Designated for long-term purposes (Note 11)	1,489,839	1,354,078
Net investment in property and equipment	1,364,290	1,228,147
	<u>3,010,049</u>	<u>2,899,875</u>
Temporarily restricted (Note 10)	2,092,336	2,154,656
	<u>5,102,385</u>	<u>5,054,531</u>
Total net assets		
Commitments and contingencies (Notes 8, 10 and 12)		
	<u>\$ 7,614,883</u>	<u>7,723,810</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

**Combined Statements of Unrestricted Support and Revenue, Expenses
and Other Changes in Unrestricted Net Assets**

Years Ended September 30, 2016 and 2015

	2016	2015
Operating support and revenue (Note 5):		
Support:		
Special events revenue	\$ 125,092	100,183
Less special event costs	(40,692)	(41,209)
Net revenue from special events	84,400	58,974
Contributions	341,158	387,746
United Way allocation	134,813	134,813
	560,371	581,533
Revenue:		
Product sales	1,953,630	1,933,577
Cost of product sales	(535,995)	(516,790)
Net product sales	1,417,635	1,416,787
Medwaiver and private pay	2,643,870	2,593,744
Funding contracts	160,933	293,288
Rental income	80,946	86,774
Investment return designated for:		
Current operations (Note 2)	208,656	254,401
Employee bonuses (Note 2)	-	134,760
Other revenue	958	1,381
	4,512,998	4,781,135
Net assets released from restrictions:		
Expiration of time restrictions - United Way	44,937	44,937
Expiration of time restrictions on capital assets	136,849	136,349
Satisfaction of use restrictions	35,231	27,680
	217,017	208,966
Total operating support and revenue	5,290,386	5,571,634
Operating expenses:		
Program services	4,299,877	4,388,775
Supporting services:		
Management and general	829,092	932,002
Development	156,266	170,395
	985,358	1,102,397
Total operating expenses	5,285,235	5,491,172
Increase in unrestricted net assets from operations	5,151	80,462
Other changes:		
Gain on property disposal, net (Note 8)	72,096	2,524
Other non-operating revenue	125,141	10,000
Investment return deficient to fund amounts designated for current operations and bonuses (Note 2)	(92,214)	(442,163)
Increase (decrease) in unrestricted net assets	\$ 110,174	(349,177)

See accompanying independent auditor's report and notes to combined financial statements.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Combined Statements of Changes in Net Assets

Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted net assets:		
Unrestricted operating support and revenue	\$ 5,073,369	5,362,668
Unrestricted operating expenses	(5,285,235)	(5,491,172)
Gain on property disposal	72,096	2,524
Other non-operating revenue	125,141	10,000
Investment return deficient to fund amounts designated for current operations and bonuses (Note 2)	(92,214)	(442,163)
Net assets released from restrictions	<u>217,017</u>	<u>208,966</u>
 Increase (decrease) in unrestricted net assets	 <u>110,174</u>	 <u>(349,177)</u>
Temporarily restricted net assets:		
Contributions	93,776	132,158
United Way support	44,937	44,937
Change in value of split-interest agreements	15,984	(1,532)
Net assets released from restrictions	<u>(217,017)</u>	<u>(208,966)</u>
 Decrease in temporarily restricted net assets	 <u>(62,320)</u>	 <u>(33,403)</u>
 Increase (decrease) in net assets	 <u>47,854</u>	 <u>(382,580)</u>
 Net assets, at beginning of year	 <u>5,054,531</u>	 <u>5,437,111</u>
 Net assets, at end of year	 <u>\$ 5,102,385</u>	 <u>5,054,531</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Combined Statement of Functional Expenses

**Year Ended September 30, 2016
(With Comparative Totals for 2015)**

	Program Services					Supporting Services			Total Expenses	
	Adult Day Training	Supported Living	Supported Employment	Transportation	Total	Management and General	Development	Total	2016	2015
Leased employees	\$ 1,777,489	1,121,829	213,960	129,639	3,242,917	612,370	113,275	725,645	3,968,562	4,155,262
Professional fees	83,327	37,267	7,467	7,644	135,705	59,894	13,892	73,786	209,491	192,284
Contract labor	4,846	-	-	-	4,846	13,397	-	13,397	18,243	11,127
Occupancy	219,327	15,762	9,350	-	244,439	17,365	5,343	22,708	267,147	265,724
Insurance	129,834	10,777	6,329	8,553	155,493	11,803	3,763	15,566	171,059	191,129
Equipment	8,459	840	174	1,012	10,485	18,578	-	18,578	29,063	21,039
Travel and transportation	7,329	18,295	13,121	71,286	110,031	6,128	787	6,915	116,946	142,791
Shipping costs	12,338	-	-	-	12,338	-	-	-	12,338	9,080
Communications	25,269	13,763	2,696	2,924	44,652	9,955	-	9,955	54,607	42,091
Bad debt expense	-	-	-	-	-	-	6,385	6,385	6,385	2,045
Office expense	40,330	6,325	2,065	270	48,990	5,965	2,181	8,146	57,136	67,815
Interest	-	-	-	-	-	20,640	-	20,640	20,640	18,113
Robert Chase Scholarships	-	-	-	-	-	-	-	-	-	4,802
Other	37,534	6,117	1,137	1,067	45,855	30,489	4,061	34,550	80,405	101,817
Total expenses before depreciation	2,346,082	1,230,975	256,299	222,395	4,055,751	806,584	149,687	956,271	5,012,022	5,225,119
Depreciation	155,447	12,565	7,393	68,721	244,126	22,508	6,579	29,087	273,213	266,053
Total	\$ 2,501,529	1,243,540	263,692	291,116	4,299,877	829,092	156,266	985,358	5,285,235	5,491,172

See accompanying independent auditor's report and notes to combined financial statements.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 47,854	(382,580)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	273,213	266,053
Gain on property disposal	(72,096)	(2,524)
Realized and unrealized (gains) losses on investments	(89,993)	111,501
Change in value of split-interest agreement	(15,984)	1,532
Noncash contribution of property	(125,141)	(16,486)
Changes in assets and liabilities:		
Increase in accounts receivable	(44,747)	(49,286)
Decrease (increase) in inventories	32,088	(4,390)
Decrease in prepaid expenses and other assets	7,866	1,697
Increase (decrease) in accounts payable and accrued expenses	(43,220)	29,976
Increase in deferred revenue	13,138	-
Net cash used in operating activities	<u>(17,022)</u>	<u>(44,507)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(217,735)	(166,231)
Proceeds from sales of property and equipment	13,000	45,200
Purchases of investments	(1,492,611)	(1,989,257)
Proceeds from sale of investments	<u>1,674,361</u>	<u>2,319,751</u>
Net cash provided by (used in) investing activities	<u>(22,985)</u>	<u>209,463</u>
Cash flows from financing activities:		
Decrease in deposit liability	(77,680)	(78,214)
Net borrowings (repayments) under short-term notes payable	141,632	(21,523)
Principal payments on long-term debt	(33,091)	(2,321)
Principal payments on capital lease obligations	<u>(7,722)</u>	<u>(11,244)</u>
Net cash provided by (used in) financing activities	<u>23,139</u>	<u>(113,302)</u>
Net increase (decrease) in cash and cash equivalents	(16,868)	51,654
Cash and cash equivalents, beginning of year	<u>191,739</u>	<u>140,085</u>
Cash and cash equivalents, end of year	<u>\$ 174,871</u>	<u>191,739</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 20,640</u>	<u>18,113</u>
Property sale resulting in deposit liability reduction	<u>\$ 149,838</u>	<u>-</u>
Refinancing of short-term to long-term debt	<u>\$ -</u>	<u>400,383</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements

September 30, 2016 and 2015

(1) **Description of Organization and Summary of Significant Accounting Policies**

(a) **Description of Organization**

MacDonald Training Center, Inc. and its affiliates, MacDonald Training Center Properties, Inc. and MacDonald Training Center Foundation, Inc. (collectively referred to as the "Organization"), were organized for the purpose of providing subsidized facilities and a wide variety of quality services to individuals with disabilities to enable them to live and function in the least restrictive environment possible. The Organization also provides a workshop staffed by individuals with disabilities and sells the inventory produced at the workshop to commercial entities.

(b) **Principles of Combination**

The combined financial statements include the financial statements of MacDonald Training Center, Inc. and its affiliates, MacDonald Training Center Properties, Inc. and MacDonald Training Center Foundation, Inc. All significant inter-organization balances and transactions have been eliminated in the combination.

(c) **Financial Accounting Standards**

The Financial Accounting Standards Board (FASB) has issued authoritative guidance establishing two levels of U.S. generally accepted accounting principles (GAAP) - authoritative and nonauthoritative - and making the Accounting Standards Codification (ASC) the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission. This guidance is incorporated into ASC Topic 105, *Generally Accepted Accounting Principles*.

(d) **Financial Statement Presentation**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

The statement of functional expenses includes certain prior-year summarized comparative information in total but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the combined financial statements for the year ended September 30, 2015, from which the summarized information was derived.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(1) Description of Organization and Summary of Significant Accounting Policies - Continued

(e) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire or are otherwise satisfied in the fiscal year in which the contributions are recognized.

(f) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(g) Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. 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. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At September 30, 2016 and 2015, approximately 95% and 97%, respectively, of net commercial receivables are due from Respect of Florida.

(h) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair values in the Organization's statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying combined financial statements. Restrictions on investment earnings are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the earnings are recognized. The fair value of the Organization's real estate is not readily determinable and is stated at cost.

(i) Property and Equipment

Depreciation of property and equipment is computed principally by the straight-line method over the estimated useful lives of the related assets. Expenditures for property and equipment are stated at cost, and those in excess of \$1,000 are capitalized. Contributed property and equipment is recorded at fair value at the date of donation. The estimated useful lives of related asset classes are as follows:

Buildings and improvements	5 - 30 years
Furniture and equipment	3 - 15 years
Transportation equipment	5 years

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(1) **Description of Organization and Summary of Significant Accounting Policies - Continued**

(j) **Inventories**

Inventories consist of raw materials and finished goods which are stated at the lower of cost or market using the first-in, first-out costing method. The majority of the inventory on hand consists of SunPass units and packaging supplies in addition to sewing and paper supplies, calendars and safety vests produced by the Organization's clientele.

(k) **Income Taxes**

The Organization has been recognized by the Internal Revenue Service as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. Income earned in furtherance of the Organization's tax-exempt purpose is exempt from Federal and State income taxes. The Organization is treated as a publicly supported organization, and not as a private foundation.

FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes*, clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Organization's income tax returns. The Organization's income tax filings are subject to audit by taxing authorities and filings for periods after fiscal 2012 are open for examination. The Organization does not believe it has any unrecognized exposure relating to uncertain tax positions at September 30, 2016.

(l) **Fair Value Measurements**

The Organization has adopted the provisions of ASC 820, *Fair Value Measurement*. ASC 820 requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices that are observable for the assets or liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3).

The carrying amount reported in the combined statement of financial position for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments.

(m) **Estimates in Combined Financial Statements**

The preparation of combined 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 combined financial statements and the reported amounts of increases or decreases in net assets during the period. Actual results could differ from those estimates.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(2) Investments

At September 30, 2016 and 2015, the cost and market value of investments were as follows:

	2016		2015	
	Cost	Market	Cost	Market
Money market fund	\$ 54,047	54,047	1,024,453	1,024,453
Certificates of deposit	100,396	100,434	-	-
Government bonds	75,038	75,048	130,516	131,095
Common stocks	406,241	452,251	318,271	347,121
Mutual funds and exchange traded funds	1,207,153	1,267,567	489,772	537,518
Community Foundation	25,000	31,201	25,000	32,118
	<u>\$ 1,867,875</u>	<u>1,980,548</u>	<u>1,988,012</u>	<u>2,072,305</u>

At September 30, 2016 and 2015, the Organization's investments in common stocks and fixed income securities are not concentrated in a single entity or in a few entities nor are there any specific industry concentrations.

The following schedule summarizes investment return for the years ended September 30, 2016 and 2015:

	2016	2015
Interest and dividends	\$ 45,770	81,609
Net realized and unrealized gains (losses)	89,993	(111,501)
Investment management fees	<u>(19,321)</u>	<u>(23,110)</u>
Total investment return	116,442	(53,002)
Investment return designated for current operations	208,656	254,401
Investment return designated for funding of employee bonuses	<u>-</u>	<u>134,760</u>
Investment return deficient to fund amounts designated for current operations and bonuses	<u>\$ (92,214)</u>	<u>(442,163)</u>

During the year ended September 30, 2015, the Organization's board of directors approved one-time distributions of approximately \$135,000 to fund employee bonuses.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(3) Property and Equipment

Property and equipment at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 1,692,992	1,706,992
Buildings and improvements	4,256,678	4,375,544
Furniture and equipment	493,010	494,810
Computers and software	318,738	193,597
Construction in progress	135,919	5,015
Transportation equipment	529,860	811,257
	<u>7,427,197</u>	<u>7,587,215</u>
Less accumulated depreciation and amortization	<u>3,991,572</u>	<u>4,130,511</u>
	<u>\$ 3,435,625</u>	<u>3,456,704</u>

Depreciation expense for the years ended September 30, 2016 and 2015 was \$273,213 and \$266,053, respectively.

In 2006, the Organization sold eleven of its residential facilities for \$2,632,000 and entered into a five-year lease for a portion of each facility with the buyer. Under the terms of the sale-leaseback agreement, the Organization is required to guarantee all rent payments due from the other tenants occupying each facility which total \$16,085 per month during the lease term. The Organization has also guaranteed rent due on all facilities for a period of up to six months after the homes have been vacated upon termination of the lease. The Organization is required to reimburse the buyer for increases in property taxes and/or property insurance which exceed 10% in any one year. Lastly, the Organization is required to pay all of the closing costs of the buyer upon resale of the homes. Because the terms of the sale-leaseback agreement require continuing involvement by the Organization, the net proceeds received from the sale have been accounted for as a deposit liability in the accompanying combined statements of financial position as of September 30, 2016 and 2015. In August 2016, one of the facilities was sold which reduced the net book value of property and equipment by \$80,968 and also reduced the related deposit liability by \$149,838. The Organization's lease commitment under the terms of the sale-leaseback agreement is more fully described in Note 8.

As more fully explained in Note 10, the City of Tampa and Hillsborough County conveyed their remainder interests in the Organization's property through a quit claim deed and issued deferred payment mortgages in the total amount of \$2,673,000. At September 30, 2016 and 2015, the net book value of the property subject to these liens was \$1,522,054 and \$1,609,025, respectively.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(4) Contributions Receivable

Contributions receivable as of September 30, 2016 and 2015 consists of the following:

	2016	2015
United Way allocations	\$ 44,937	44,937
Shattering Barriers pledges	19,330	28,539
Florida Department of Transportation	50,700	4,597
Foundation contribution	217,000	229,500
Less allowance for uncollectible pledges	(4,200)	(4,200)
Less unamortized discount	(23,576)	(38,406)
	\$ 304,191	264,967
Amounts due in:		
Less than one year	\$ 135,867	96,698
One to five years	87,600	88,475
More than five years	108,500	122,400
	\$ 331,967	307,573

Contributions receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rates of 4.1%.

(5) Credit and Funding Concentrations

The Organization relies to a significant extent on the State of Florida as a source of funding. Funding from the State of Florida represented approximately 52% and 49% of total operating support and revenue for the years ended September 30, 2016 and 2015, respectively.

At September 30, 2016 and 2015, the Organization's cash balances were fully covered by federal deposit insurance.

(6) Short-Term Notes Payable

The Organization has obtained two revolving lines of credit from a commercial bank that allow the Organization to borrow up to \$250,000 under each line of credit. The loans are unsecured and bear interest at the higher of the Wall Street Journal prime rate (3.75% at September 30, 2016) or 4%. At September 30, 2016 and 2015, the outstanding balance on the lines of credit was \$211,632 and \$70,000, respectively.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(7) Long-Term Debt

Long-term debt at September 30, 2016 and 2015 consists of the following:

	2016	2015
4.25% note payable to a bank; due in monthly installments of \$4,117, including interest through August 2025; secured by an investment account.	\$ 364,971	398,062
Non-interest bearing rehabilitation loan from Hillsborough County, payment of principal is deferred until sale of the property; secured by real estate.	13,119	13,119
Total long-term debt	378,090	411,181
Less current installments	34,103	32,852
Long-term debt, excluding current installments	\$ 343,987	378,329

The Organization has no plans to sell the property acquired with the proceeds of the rehabilitation loan from Hillsborough County; therefore, the loan has been classified as a noncurrent liability in the accompanying combined statements of financial position as of September 30, 2016 and 2015.

The aggregate maturities of long-term debt for each of the five years subsequent to September 30, 2016 and thereafter are as follows:

Years Ending September 30,

2017	\$	34,103
2018		35,851
2019		37,427
2020		39,043
2021		40,788
Thereafter		190,878
	\$	378,090

(8) Leases

At September 30, 2016, the Organization was obligated under capital leases for certain office equipment that expire at various dates through fiscal 2019. At September 30, 2016, the gross amount of equipment and the related accumulated amortization recorded under the capital leases was \$50,563 and \$23,727, respectively. At September 30, 2015, the gross amount of equipment and the related accumulated amortization recorded under the capital leases was \$50,563 and \$15,305, respectively. Amortization of the assets held under capital leases is included in depreciation expense.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(8) Leases - Continued

The Organization also leases a portion of ten residential facilities under a sale-leaseback agreement which is considered to be a noncancellable operating lease. The operating lease has a five year lease term with two five-year renewal options. Rent paid under the lease for fiscal years 2016 and 2015 was \$80,326, and \$78,489, respectively, and was recorded as a reduction of the related deposit liability. At September 30, 2016 and 2015, the gross amount of assets held under the sale-leaseback agreement was \$1,249,871 and \$1,393,757, respectively, and the related accumulated depreciation was \$716,610 and \$745,546, respectively.

In August 2016, as a result of one of the facilities being sold, the Organization removed property with a net book value of \$80,968 from its books and reduced the related sale-leaseback deposit liability by \$149,838. This transaction resulted in a gain of \$68,870 which is reflected in the accompanying combined financial statements for the year ended September 30, 2016.

Future minimum lease payments under the noncancellable operating lease and the present value of future minimum capital lease payments as of September 30, 2016 are as follows:

<u>Years Ending September 30,</u>	<u>Capital Leases</u>	<u>Operating Lease</u>	<u>Total</u>
2017	\$ 7,254	56,643	63,897
2018	8,385	-	8,385
2019	<u>2,795</u>	<u>-</u>	<u>2,795</u>
Total minimum lease payments	18,434	<u>56,643</u>	<u>75,077</u>
Less amount representing interest	<u>675</u>		
Present value of minimum capital lease payments	17,759		
Current installments of capital lease obligations	<u>7,198</u>		
Capital lease obligations, less current installments	<u>\$ 10,561</u>		

(9) Retirement Plan

The Organization has a defined contribution retirement plan which covers all employees with six months of service who have attained the age of 21. After completion of six months of service, employees are eligible to receive matching contributions to the plan. Effective during fiscal 2010, the plan was modified to allow for a discretionary contribution in the amount of 3% of each participant's gross wages, which are paid to the plan in monthly installments. During fiscal 2016 and 2015, the Organization suspended its matching contribution to the plan. No expense was incurred relating to the retirement plan for either of the years ended September 30, 2016 and 2015.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(10) Temporary Restrictions on Net Assets

Temporary restrictions on net assets as of September 30, 2016 and 2015 relate to the following:

	2016	2015
Outstanding pledges	\$ 17,741	26,951
Contribution restricted for documentary video	10,000	10,000
United Way allocation	44,937	44,937
Lien on contributed vehicles	153,432	182,870
Contribution restricted for technology lab	14,406	20,121
Lien on operating facility	1,522,054	1,609,025
Grant restricted for acquisition of vehicles	50,700	-
Charitable remainder trust	84,054	68,070
Contributions restricted for future periods	195,012	192,682
	\$ 2,092,336	2,154,656

In 1999, the Organization sold property originally contributed to the Organization by the City of Tampa (“City”) and by Hillsborough County (“County”). The property sold was subject to an 80% reverter interest in favor of the City and a 10% reverter interest in favor of the County. The sales proceeds were used to purchase property totaling \$2,982,759 and the reverter interests held by the City and the County were transferred to the new property.

Effective October 16, 2009, the City agreed to convey its remainder interest in the property through a quit claim deed and issued a deferred payment purchase money mortgage in the amount of \$2,376,000. Effective November 24, 2009, the County also agreed to convey its remainder interest in the property through a quit claim deed and issued a deferred payment purchase money mortgage in the amount of \$297,000. Both of the deferred payment purchase money mortgages are non-interest bearing. Payment under both of these mortgages is due only upon the sale of the property without prior approval of each governmental agency or if the property is no longer used to provide services to persons with disabilities.

Since the Organization has no plans or intentions to sell the property or otherwise default under the terms of the deferred payment purchase money mortgages, the liens are recorded in the accompanying combined statements of financial position as a component of temporarily restricted net assets equal to 90% of the remaining net book value of the property totaling \$1,522,054 and \$1,609,025 as of September 30, 2016 and 2015, respectively. For each of the years ended September 30, 2016 and 2015, the Organization recorded a release of restriction equal to depreciation expense on the property totaling \$86,971 and \$96,334, respectively.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(11) Board-Designated Endowment

The Board of Directors of MacDonald Training Center Foundation, Inc. has designated a portion of unrestricted net assets as a general endowment fund to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor restricted, it is classified and reported as unrestricted net assets.

Investment Return Objectives, Risk Parameters, and Strategies: The Organization has adopted an investment policy statement approved by the Board of Directors. The policy statement stipulates that the endowment investments should be managed as a long-term goal designed to maximize the returns without exposure to undue risk, as defined herein. Whereas it is understood that fluctuating rates of return are characteristic of the securities market, the greatest concern should be long-term appreciation of the assets and consistency of total portfolio returns. Recognizing that short-term market fluctuations may cause variations in the account performance, the Organization will pursue a strategy seeking to exceed a benchmark return of a target portfolio ranging from 65% - 70% equities and 35% - 30% fixed income securities.

Spending Policy: The Organization's spending policy allows for an annual distribution equal to 6% of the fair value of endowment funds as of the prior June 30th of each year. If extraordinary circumstances warrant an additional distribution, the Organization's spending policy allows for a maximum distribution up to 10% of the fair value of endowment funds as of the prior June 30th each year.

Composition of and changes in endowment fund net assets for the years ended September 30, 2016 and 2015 were as follows:

Balance at September 30, 2014	\$	1,717,859
Investment income		58,667
Realized and unrealized losses		(111,501)
Reclassifications		78,214
Withdrawals		<u>(389,161)</u>
Balance at September 30, 2015		1,354,078
Investment income		26,906
Realized and unrealized gains		89,993
Reclassifications		227,518
Withdrawals		<u>(208,656)</u>
Balance at September 30, 2016	\$	<u><u>1,489,839</u></u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(12) Contingencies

The Organization routinely enters into grant agreements and contracts with governmental agencies that provide for reimbursement of the eligible direct and indirect costs of providing certain of the Organization's program services. The grants and contracts are subject to audit or review and retroactive adjustment based on a final determination by the grantor of eligible reimbursable expenditures. The effect of such adjustments, if any, on the Organization's combined financial statements cannot be determined at this time and no provision has been made for any such adjustment in the accompanying combined financial statements.

(13) Receivable Under Charitable Remainder Trust

In fiscal 2010, the Organization was named the remainder beneficiary under a charitable remainder trust. Under the terms of the trust, quarterly distributions of 5% of the fair market value of the trust assets as of the beginning of the trust year are made to the donor over the donor's lifetime. Upon the death of the donor, the remaining assets are available for the Organization's use. The receivable under the charitable remainder trust is reported at estimated fair value in the Organization's combined statements of financial position. At September 30, 2016 and 2015, temporarily restricted net assets related to the charitable remainder trust were approximately \$84,000 and \$68,000, respectively. In April 2016, the lifetime beneficiary of the trust passed away and the liquidation and distribution of assets process was started. The Organization received a terminating distribution from the trust of approximately \$84,000 in October 2016.

(14) Fair Value Measurements

Financial instruments measured at fair value are classified and disclosed in the following categories:

Level 1: Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are governmental bonds, equities, and mutual funds.

Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include money market funds, government bonds, certificates of deposit and Community Foundation investments.

Level 3: Valuation is based on unobservable inputs. The Organization's receivable under a charitable remainder trust is considered a Level 3 fair value measurement.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(14) Fair Value Measurements - Continued

Fair value of assets measured on a recurring basis at September 30, 2016 is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 54,047	-	54,047	-
Certificates of deposit	100,434	-	100,434	-
Common stocks and options:				
US Large Cap Growth	118,641	118,641	-	-
US Large Cap Blend	7,569	7,569	-	-
US Large Cap Value	112,075	112,075	-	-
US Mid Cap Growth	24,581	24,581	-	-
US Mid Cap Value	9,008	9,008	-	-
US Small Cap Value	21,722	21,722	-	-
US Small Cap Blend	2,854	2,854	-	-
US Small Cap Growth	48,691	48,691	-	-
US Balanced Asset Allocation	3,317	3,317	-	-
International	82,682	82,682	-	-
Other	21,111	21,111	-	-
Mutual funds and ETF's - equities:				
US Large Cap Growth	24,519	24,519	-	-
US Large Cap Blend	568,514	568,514	-	-
US Large Cap Value	44,158	44,158	-	-
US Small Cap Growth	108,394	108,394	-	-
High Yield Bond Funds	302,490	302,490	-	-
International	219,492	219,492	-	-
Government bonds	75,048	-	75,048	-
Community Foundation investment	31,201	-	31,201	-
	<u>1,980,548</u>	<u>1,719,818</u>	<u>260,730</u>	<u>-</u>
Receivable under charitable remainder trust	84,054	-	-	84,054
	<u>\$ 2,064,602</u>	<u>1,719,818</u>	<u>260,730</u>	<u>84,054</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(14) Fair Value Measurements - Continued

Fair value of assets measured on a recurring basis at September 30, 2015 is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 1,024,453	-	1,024,453	-
Common stocks and options:				
US Large Cap Growth	166,643	166,643	-	-
US Large Cap Value	175,517	175,517	-	-
US Mid Cap Growth	4,961	4,961	-	-
Mutual funds and ETF's - equities:				
US Large Cap Growth	45,909	45,909	-	-
US Mid Cap Growth	45,191	45,191	-	-
US Small Cap Growth	46,889	46,889	-	-
High Yield Bond Funds	117,473	117,473	-	-
International	282,056	282,056	-	-
Government bonds	131,095	-	131,095	-
Community Foundation investment	<u>32,118</u>	<u>-</u>	<u>32,118</u>	<u>-</u>
 Total investments	 2,072,305	 884,639	 1,187,666	 -
 Receivable under charitable remainder trust	 <u>68,070</u>	 <u>-</u>	 <u>-</u>	 <u>68,070</u>
	<u>\$ 2,140,375</u>	<u>884,639</u>	<u>1,187,666</u>	<u>68,070</u>

The Organization estimates the fair value of the receivable resulting from a beneficial interest in a charitable remainder trust by using an income approach based on calculating the present value of the future distribution expected to be received. This approach takes into account the Organization's determination of an appropriate risk-adjusted discount rate (1.70% at September 30, 2016), expected appreciation of the trust's investments, and published life expectancy information as it relates to the income beneficiary. The Organization remeasures the fair value of its beneficial interest in the charitable remainder trust annually and adjusts the measurement inputs based on statements received from the trustee, market conditions, and other relevant data.

The following table sets forth a summary of changes in fair value of assets using significant unobservable inputs (Level 3) for the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Receivable under charitable remainder trust:		
Balance, beginning of the year	\$ 68,070	69,602
Change in fair value due to change in value of underlying assets and actuarial assumptions	15,984	(1,532)
Purchases, sales, issuances and settlements, net	<u>-</u>	<u>-</u>
 Balance, end of the year	 <u>\$ 84,054</u>	 <u>68,070</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(15) Subsequent Events

The Organization has evaluated subsequent events through February 6, 2017, the date the combined financial statements were available for issuance.

SUPPLEMENTARY FINANCIAL INFORMATION

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Combining Statement of Financial Position

September 30, 2016

Assets	MacDonald Training Center, Inc.	MacDonald Training Center Properties, Inc.	MacDonald Training Center Foundation, Inc.	Eliminations	Combined Totals
Current assets:					
Cash and cash equivalents	\$ 31,112	51,062	92,697	-	174,871
Accounts receivable:					
Grants and funding sources	15,238	-	-	-	15,238
Medwaiver and private insurance, net	226,152	-	-	-	226,152
Commercial, net	316,077	-	-	-	316,077
Other	9,312	1,867	1,315	-	12,494
Intercompany, net	564,752	-	186,654	(751,406)	-
Current portion of contributions receivable	126,638	-	9,229	-	135,867
Receivable under charitable remainder trust	84,054	-	-	-	84,054
Inventories	117,564	-	-	-	117,564
Prepaid expenses and other current assets	36,609	10,348	5,563	-	52,520
	<u>1,527,508</u>	<u>63,277</u>	<u>295,458</u>	<u>(751,406)</u>	<u>1,134,837</u>
Total current assets					
Investments	-	-	1,980,548	-	1,980,548
Real estate investment	-	862,000	-	-	862,000
Contributions receivable, less current portion	164,012	-	4,312	-	168,324
Property and equipment, net	470,532	2,950,148	14,945	-	3,435,625
Other assets	-	12,965	20,584	-	33,549
	<u>2,162,052</u>	<u>3,888,390</u>	<u>2,315,847</u>	<u>(751,406)</u>	<u>7,614,883</u>
Liabilities and Net Assets					
Current liabilities:					
Short-term notes payable	\$ 211,632	-	-	-	211,632
Current installments of capital lease obligations	7,198	-	-	-	7,198
Current installments of long term debt	34,103	-	-	-	34,103
Accounts payable and accrued expenses	441,784	26,778	4,916	-	473,478
Intercompany, net	-	751,406	-	(751,406)	-
Deferred revenue	-	78,830	-	-	78,830
	<u>694,717</u>	<u>857,014</u>	<u>4,916</u>	<u>(751,406)</u>	<u>805,241</u>
Total current liabilities					
Deposit liability	-	1,352,709	-	-	1,352,709
Capital lease obligations, less current installments	10,561	-	-	-	10,561
Long-term debt, excluding current installments	330,868	13,119	-	-	343,987
	<u>1,036,146</u>	<u>2,222,842</u>	<u>4,916</u>	<u>(751,406)</u>	<u>2,512,498</u>
Total liabilities					
Net assets	<u>1,125,906</u>	<u>1,665,548</u>	<u>2,310,931</u>	<u>-</u>	<u>5,102,385</u>
	<u>\$ 2,162,052</u>	<u>3,888,390</u>	<u>2,315,847</u>	<u>(751,406)</u>	<u>7,614,883</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Combining Statement of Changes in Net Assets

Year Ended September 30, 2016

	MacDonald Training Center, Inc.	MacDonald Training Center Properties, Inc.	MacDonald Training Center Foundation, Inc.	Eliminations	Combined Totals
Support and revenue:					
Support:					
Special events revenue	\$ -	-	125,092	-	125,092
Less: special events costs	-	-	(40,692)	-	(40,692)
Net revenue from special events	-	-	84,400	-	84,400
Contributions	397,603	-	53,315	-	450,918
United Way allocation	179,750	-	-	-	179,750
	<u>577,353</u>	-	<u>137,715</u>	-	<u>715,068</u>
Revenue:					
Product sales	1,953,630	-	-	-	1,953,630
Cost of product sales	(535,995)	-	-	-	(535,995)
Net product sales	1,417,635	-	-	-	1,417,635
Medwaiver and private pay	2,643,870	-	-	-	2,643,870
Funding contracts	160,933	-	-	-	160,933
Rental income	-	80,946	-	-	80,946
Investment return designated for current operations	-	-	208,656	-	208,656
Other revenue	958	-	-	-	958
Intercompany revenue	396,712	377,680	-	(774,392)	-
	<u>4,620,108</u>	<u>458,626</u>	<u>208,656</u>	<u>(774,392)</u>	<u>4,512,998</u>
Total support and revenue	<u>5,197,461</u>	<u>458,626</u>	<u>346,371</u>	<u>(774,392)</u>	<u>5,228,066</u>
Expenses:					
Program services	4,147,839	554,666	-	(402,628)	4,299,877
Supporting services	933,789	93,017	330,316	(371,764)	985,358
Total expenses	<u>5,081,628</u>	<u>647,683</u>	<u>330,316</u>	<u>(774,392)</u>	<u>5,285,235</u>
Increase (decrease) in net assets before other changes	115,833	(189,057)	16,055	-	(57,169)
Other changes:					
Investment return deficient to fund amounts designated for current operations and bonuses	-	-	(92,214)	-	(92,214)
Other non-operating revenue	125,141	-	-	-	125,141
Gain on disposal of property, net	3,226	68,870	-	-	72,096
Increase (decrease) in net assets	244,200	(120,187)	(76,159)	-	47,854
Net assets at beginning of year	881,706	1,785,735	2,387,090	-	5,054,531
Net assets at end of year	\$ <u>1,125,906</u>	<u>1,665,548</u>	<u>2,310,931</u>	-	<u>5,102,385</u>

INTERNAL CONTROL AND COMPLIANCE



Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
MacDonald Training Center, Inc. and Affiliates:

We have audited, in accordance with the 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 combined financial statements of MacDonald Training Center, Inc. and Affiliates (collectively a nonprofit organization), which comprise the combined statement of financial position as of September 30, 2016, and the related combined statements of unrestricted support and revenue, expenses and other changes in unrestricted net assets, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated February 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered MacDonald Training Center, Inc. and Affiliates’ 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of MacDonald Training Center, Inc. and Affiliates’ internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s 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 combined 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MacDonald Training Center, Inc. and Affiliates' combined financial statements are free of material misstatement, we performed tests of their 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 combined 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MAYER HOFFMAN MCCANN P.C.

February 6, 2017
Clearwater, Florida