

**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, 2019 and 2018
(With Independent Auditor's Report Thereon)**

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

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AUDITED FINANCIAL STATEMENTS



Mayer Hoffman McCann P.C.

13577 Feather Sound Drive, Suite 400 ■ Clearwater, FL 33762
Main: 727.572.1400 ■ Fax: 727.571.1933 ■ www.mhmcpc.com

**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, 2019 and 2018, and the related combined statements of support and revenue, expenses and other changes in net assets without donor restrictions, 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, 2019, 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 financial position of MacDonald Training Center, Inc. and Affiliates as of September 30, 2019 and 2018, 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, 2019, 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 2018 combined financial statements, and our report dated February 7, 2019 expressed an unmodified opinion on those audited combined financial statements. In our opinion, the summarized comparative information presented herein for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary Financial 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 24, 2020 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 24, 2020
Clearwater, Florida

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Combined Statements of Financial Position

September 30, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents (Note 5)	\$ 331,787	502,002
Accounts receivable:		
Funding sources	49,799	42,344
Grants	-	43,606
Medwaiver and private pay, net of allowance for doubtful accounts of approximately \$22,900 and \$25,000 in 2019 and 2018, respectively	219,966	231,357
Commercial, net of allowance for doubtful accounts of approximately \$12,100 and \$10,000 in 2019 and 2018, respectively	311,787	321,053
Other	25,400	8,567
Current portion of contributions receivable (Note 4)	158,804	201,886
Inventories	99,140	101,020
Certificates of deposit (Notes 2, 5 and 13)	511,000	-
Prepaid expenses and other current assets	<u>81,945</u>	<u>122,262</u>
Total current assets	1,789,628	1,574,097
Investments (Notes 2, 7 and 13)	3,360,344	2,255,378
Real estate investment	-	862,000
Contributions receivable, less current portion (Note 4)	115,413	118,623
Property and equipment, net (Notes 3, 7 and 8)	3,101,571	2,966,313
Other assets	<u>24,983</u>	<u>29,729</u>
	<u>\$ 8,391,939</u>	<u>7,806,140</u>

Liabilities and Net Assets	<u>2019</u>	<u>2018</u>
Current liabilities:		
Short-term notes payable (Note 6)	\$ 100,000	75,000
Current installments of capital lease obligations (Note 8)	6,644	3,094
Current installments of long-term debt (Note 7)	-	37,427
Accounts payable and accrued expenses	499,755	463,256
Deferred revenue	-	78,830
	<u>606,399</u>	<u>657,607</u>
Total current liabilities		
Deposit liability (Notes 3 and 8)	763,932	943,329
Capital lease obligations, less current installments (Note 8)	22,702	-
Long-term debt, excluding current installments (Note 7)	-	257,351
	<u>1,393,033</u>	<u>1,858,287</u>
Total liabilities		
Net assets:		
Without donor restrictions:		
Undesignated	681,516	425,752
Designated for long-term purposes (Note 11)	2,596,412	2,174,049
Net investment in property and equipment	1,692,755	1,206,874
	<u>4,970,683</u>	<u>3,806,675</u>
With donor restrictions (Note 10)	2,028,223	2,141,178
	<u>6,998,906</u>	<u>5,947,853</u>
Total net assets		
Commitments and contingencies (Notes 8, 10 and 12)		
	<u>\$ 8,391,939</u>	<u>7,806,140</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

**Combined Statements of Support and Revenue, Expenses
and Other Changes in Net Assets Without Donor Restrictions**

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating support and revenue (Note 5):		
Support:		
Special events revenue	\$ 144,686	123,702
Less special event costs	<u>(52,967)</u>	<u>(44,564)</u>
Net revenue from special events	91,719	79,138
Contributions and grants	508,805	408,442
United Way allocation	<u>80,415</u>	<u>102,450</u>
	680,939	590,030
Revenue:		
Product sales	1,716,978	1,807,084
Cost of product sales	<u>(394,261)</u>	<u>(449,561)</u>
Net product sales	1,322,717	1,357,523
Medwaiver and private pay	2,656,782	2,799,381
Funding contracts	295,516	242,364
Rental income	23,104	90,927
Investment return designated for current operations (Note 2)	102,527	99,343
Other revenue	<u>9,806</u>	<u>1,047</u>
	4,410,452	4,590,585
Net assets released from restrictions:		
Expiration of time restrictions	40,135	53,348
Expiration of time restrictions on capital assets	132,598	131,713
Satisfaction of use restrictions	<u>14,067</u>	<u>95,636</u>
	<u>186,800</u>	<u>280,697</u>
Total operating support and revenue	5,278,191	5,461,312
Operating expenses:		
Program services	4,500,305	4,480,432
Supporting services:		
Management and general	758,865	609,931
Development	<u>123,264</u>	<u>143,893</u>
	<u>882,129</u>	<u>753,824</u>
Total operating expenses	<u>5,382,434</u>	<u>5,234,256</u>
Increase (decrease) in net assets without donor restrictions from operations	(104,243)	227,056
Other changes:		
Gain on property disposals (Note 8)	1,164,412	79,085
Investment return in excess of amounts designated for current operations (Note 2)	<u>103,839</u>	<u>97,476</u>
Increase in net assets without donor restrictions	<u>\$ 1,164,008</u>	<u>403,617</u>

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions:		
Operating support and revenue without donor restrictions	\$ 5,091,391	5,180,615
Operating expenses	(5,382,434)	(5,234,256)
Gain on property disposals	1,164,412	79,085
Investment return in excess of amounts designated for current operations (Note 2)	103,839	97,476
Net assets released from restrictions	<u>186,800</u>	<u>280,697</u>
Increase in net assets without donor restrictions	1,164,008	403,617
Net assets with donor restrictions:		
Contributions and bequests	37,500	94,985
United Way support	36,345	34,150
Net assets released from restrictions	<u>(186,800)</u>	<u>(280,697)</u>
Decrease in net assets with donor restrictions	<u>(112,955)</u>	<u>(151,562)</u>
Increase in net assets	1,051,053	252,055
Net assets, at beginning of year	<u>5,947,853</u>	<u>5,695,798</u>
Net assets, at end of year	<u>\$ 6,998,906</u>	<u>5,947,853</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Combined Statement of Functional Expenses

**Year Ended September 30, 2019
(With Comparative Totals for 2018)**

	Program Services				Supporting Services			Total Expenses		
	Adult Day Training	Supported Living	Supported Employment	Transportation	Total	Management and General	Development	Total	2019	2018
Leased employees	\$ 1,938,294	1,032,458	269,036	197,237	3,437,025	478,084	83,020	561,104	3,998,129	3,864,770
Professional fees	66,806	33,450	12,503	5,955	118,714	71,346	10,044	81,390	200,104	188,060
Contract labor	-	-	-	-	-	53,712	-	53,712	53,712	40,717
Occupancy	150,276	37,922	3,779	-	191,977	14,520	7,025	21,545	213,522	240,536
Insurance	121,061	30,550	3,044	-	154,655	11,697	5,660	17,357	172,012	185,851
Equipment	4,704	259	70	647	5,680	57,766	-	57,766	63,446	48,451
Training, travel and transportation	9,020	10,034	20,549	99,899	139,502	3,078	167	3,245	142,747	114,300
Shipping costs	53,977	-	-	-	53,977	-	-	-	53,977	22,627
Communications	18,719	8,677	3,638	1,842	32,876	10,445	-	10,445	43,321	52,479
Office expense	41,454	10,528	3,476	259	55,717	10,264	2,771	13,035	68,752	61,825
Interest	-	-	-	-	-	4,455	-	4,455	4,455	16,204
Robert Chase scholarships	-	-	-	-	-	-	2,930	2,930	2,930	-
Other	44,969	5,685	1,159	831	52,644	28,183	6,768	34,951	87,595	102,251
Total expenses before depreciation	2,449,280	1,169,563	317,254	306,670	4,242,767	743,550	118,385	861,935	5,104,702	4,938,071
Depreciation	177,256	11,764	3,718	64,800	257,538	15,315	4,879	20,194	277,732	296,185
Total	\$ 2,626,536	1,181,327	320,972	371,470	4,500,305	758,865	123,264	882,129	5,382,434	5,234,256

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 1,051,053	252,055
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	277,732	296,185
Gain on property disposals	(100,412)	(79,085)
Gain on sale of real estate investment	(1,064,000)	-
Realized and unrealized gains on investments	(159,278)	(173,866)
Noncash contribution - debt relief	-	(13,119)
Changes in assets and liabilities:		
Decrease in accounts receivable	86,267	304,887
Decrease (increase) in inventories	1,880	(13,746)
Decrease (increase) in prepaid expenses and other assets	45,063	(55,469)
Increase (decrease) in accounts payable and accrued expenses	36,499	(46,908)
Increase in deferred revenue	(18,516)	-
Net cash provided by operating activities	156,288	470,934
Cash flows from investing activities:		
Purchases of property and equipment	(416,315)	(39,243)
Proceeds from sales of property and equipment	18,221	25,000
Proceeds from sale of real estate investment	1,865,686	-
Purchases of certificates of deposit	(961,000)	-
Proceeds from sale of certificates of deposit	450,000	-
Purchases of investments	(1,742,149)	(577,614)
Proceeds from sale of investments	796,461	653,061
Net cash provided by investing activities	10,904	61,204
Cash flows from financing activities:		
Decrease in deposit liability	(60,660)	(67,880)
Net borrowings (repayments) under short-term notes payable	25,000	(105,612)
Principal payments on long-term debt	(294,778)	(35,851)
Principal payments on capital lease obligations	(6,969)	(7,673)
Net cash used in financing activities	(337,407)	(217,016)
Net increase (decrease) in cash and cash equivalents	(170,215)	315,122
Cash and cash equivalents, beginning of year	502,002	186,880
Cash and cash equivalents, end of year	\$ 331,787	502,002
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 4,455	16,204
Noncash investing and financing transactions:		
Property sale resulting in deposit liability reduction	\$ 118,737	145,717
Property sale resulting in deferred rent revenue reduction	\$ 60,314	-
Equipment acquired under a capital lease agreement	\$ 33,221	-

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

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements

September 30, 2019 and 2018

(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.

(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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. 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, 2018, from which the summarized information was derived.

(e) **Contributions**

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire or are otherwise satisfied in the fiscal year in which the contributions are recognized.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

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

(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, 2019 and 2018, approximately 76% and 80%, 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 combined 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the earnings are recognized. The fair value of the Organization's real estate investment 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

(j) Inventories

Inventories consist of raw materials and finished goods which are stated at the lower of cost or net realizable value 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 and safety vests produced by the Organization's clientele.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

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

(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.

ASC Topic 740, *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 2015 are open for examination. The Organization does not believe it has any unrecognized exposure relating to uncertain tax positions at September 30, 2019.

(l) **Fair Value Measurements**

The Organization has adopted the provisions of ASC Topic 820, *Fair Value Measurement*. ASC Topic 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.

(n) **Functional Allocation of Expenses**

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the Combined Statements of Support and Revenue, Expenses and Other Changes in Net Assets Without Donor Restrictions. The Combined Statements of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Personnel costs have been allocated to functional classifications based on the reporting of time spent on each by the employees. Depreciation of property and related operation and maintenance expenses have been allocated to functional classifications based on square footage of facilities.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

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

(o) Recent Accounting Pronouncement

In August 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expiration of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement or in the notes to the financial statements and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Organization has adopted this ASU as of and for the year ended September 30, 2019. As a result, the Organization changed the presentation of its net assets classes and expanded its footnote disclosures as required by the ASU.

(2) Investments

At September 30, 2019 and 2018, the cost and market value of investments were as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Short-term investments:				
Certificates of deposit	\$ 511,011	511,000	-	-
	511,011	511,000	-	-
Long-term investments:				
Money market fund	49,928	49,928	34,429	34,429
Certificates of deposit	199,956	200,000	99,943	100,009
Common stocks	675,754	841,460	425,669	597,282
Mutual funds and exchange traded funds	1,908,047	2,227,063	1,232,869	1,483,568
Community Foundation	28,000	41,893	27,000	40,090
	<u>2,861,685</u>	<u>3,360,344</u>	<u>1,819,910</u>	<u>2,255,378</u>
	<u>\$ 3,372,696</u>	<u>3,871,344</u>	<u>1,819,910</u>	<u>2,255,378</u>

At September 30, 2019 and 2018, 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.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(2) Investments - Continued

Investment return is allocated between amounts designated for current operations and amounts in excess of amounts designated for current operations (non-operating) in the accompanying combined statements of changes in net assets. The amount designated for current operations is the amount approved for withdrawal from the board-designated endowment during the year to be used for operations. The Organization's board-designated endowment is more fully described in Note 11.

The following schedule summarizes investment return for the years ended September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 75,271	43,773
Net realized and unrealized gains	159,278	173,866
Investment management fees	<u>(28,183)</u>	<u>(20,820)</u>
 Total investment return	 206,366	 196,819
 Investment return designated for current operations	 <u>102,527</u>	 <u>99,343</u>
 Investment return in excess of amounts designated for current operations	 <u>\$ 103,839</u>	 <u>97,476</u>

(3) Property and Equipment

Property and equipment at September 30, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 1,638,992	1,663,992
Buildings and improvements	4,471,723	4,270,829
Furniture and equipment	461,163	433,304
Computers and software	333,465	333,467
Construction in progress	56,267	33,180
Transportation equipment	<u>545,173</u>	<u>542,045</u>
	7,506,783	7,276,817
 Less accumulated depreciation and amortization	 <u>4,405,212</u>	 <u>4,310,504</u>
	<u>\$ 3,101,571</u>	<u>2,966,313</u>

Depreciation expense for the years ended September 30, 2019 and 2018 was \$277,732 and \$296,185, respectively.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(3) Property and Equipment - Continued

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, 2019 and 2018. In August 2019, one of the facilities was sold which reduced the net book value of property and equipment by \$27,135 and also reduced the related deposit liability by \$118,737. In August 2018, one of the facilities was sold which reduced the net book value of property and equipment by \$89,930 and also reduced the related deposit liability by \$145,717. 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, 2019 and 2018, the net book value of the property subject to these liens was \$1,272,835 and \$1,353,625, respectively.

(4) Contributions Receivable

Contributions receivable as of September 30, 2019 and 2018 consists of the following:

	2019	2018
United Way allocations	\$ 36,345	34,150
Shattering Barriers pledges	6,774	7,850
Florida Department of Transportation	78,985	129,486
Wells Fargo grant	10,000	-
The Able Trust	-	2,000
Foundation contribution	159,500	174,000
Less allowance for uncollectible pledges	(2,300)	(2,300)
Less unamortized discount	(15,087)	(24,677)
	\$ 274,217	320,509
Amounts due in:		
Less than one year	\$ 161,104	201,886
One to five years	72,500	73,100
More than five years	58,000	72,500
	\$ 291,604	347,486

Contributions receivable due in more than one year are reflected at the present value of estimated future cash flows using discount rates ranging from 2.03% to 4.50%, respectively.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(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 53% and 54% of total operating support and revenue for the years ended September 30, 2019 and 2018, respectively.

The Organization maintains certain operating accounts with a commercial bank. The balances in these accounts may exceed the federal deposit insurance limit at times throughout the year. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant risk of loss. There were no uninsured cash and cash equivalent balances at September 30, 2019.

(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 (5.0% at September 30, 2019) or a minimum interest rate of 4%. At September 30, 2019 and 2018, the outstanding balance on the lines of credit was \$100,000 and \$75,000, respectively.

(7) Long-Term Debt

Long-term debt at September 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
4.25% note payable to a bank; due in monthly installments of \$4,117, including interest through August 2025; secured by an investment account; paid in full in fiscal year 2019.	\$ -	294,778
Total long-term debt	-	294,778
Less current installments	-	37,427
Long-term debt, excluding current installments	\$ -	257,351

In January 2018, Hillsborough County issued a satisfaction of lien acknowledging that a non-interest bearing rehabilitation loan had been satisfied in full and the lien had been released for good and valuable consideration. The satisfaction of the loan is included in contributions in the accompanying combined statements of changes in net assets for fiscal year 2018. The Organization had no plans to sell the property acquired with the proceeds of the rehabilitation loan; therefore, the loan had been classified as a noncurrent liability in the accompanying combined statement of financial position prior to satisfaction of the loan in full and the release of the lien.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(8) Leases

At September 30, 2019, the Organization was obligated under capital leases for certain office equipment that expire at various dates through fiscal 2024. At September 30, 2019, the gross amount of equipment and the related accumulated amortization recorded under the capital leases was \$33,221 and \$3,876, respectively. At September 30, 2018, the gross amount of equipment and the related accumulated amortization recorded under the capital leases was \$33,660 and \$31,416 respectively. Amortization of the assets held under capital leases is included in depreciation expense.

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 2019 and 2018 was \$59,494, and \$67,880, respectively, and was recorded as a reduction of the related deposit liability. At September 30, 2019 and 2018, the gross amount of assets held under the sale-leaseback agreement was \$842,383 and \$945,064, respectively, and the related accumulated depreciation was \$562,689 and \$621,039, respectively.

In August 2019, as a result of one of the facilities being sold, the Organization removed property with a net book value of \$27,135 from its books and reduced the related sale-leaseback deposit liability by \$118,737. This transaction resulted in a gain of \$91,602 which is reflected in the accompanying combined financial statements for the year ended September 30, 2019.

In August 2018, as a result of one of the facilities being sold, the Organization removed property with a net book value of \$89,930 from its books and reduced the related sale-leaseback deposit liability by \$145,717. This transaction resulted in a gain of \$57,046 which is reflected in the accompanying combined financial statements for the year ended September 30, 2018.

Future minimum lease payments under the noncancellable operating lease and the present value of future minimum capital lease payments as of September 30, 2019 are as follows:

<u>Year Ending September 30,</u>	<u>Capital Leases</u>	<u>Operating Lease</u>	<u>Total</u>
2020	\$ 6,645	44,620	51,265
2021	6,645	-	6,645
2022	6,645	-	6,645
2023	6,645	-	6,645
2024	2,766	-	2,766
Total minimum lease payments	29,346	<u>44,620</u>	<u>73,966</u>
Current installments of capital lease obligations	<u>6,644</u>		
Capital lease obligations, less current installments	<u>\$ 22,702</u>		

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(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 2019 and 2018, 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, 2019 and 2018.

(10) Net Assets With Donor Restrictions

Donor restrictions on net assets as of September 30, 2019 and 2018 relate to the following:

	2019	2018
Outstanding pledges	\$ 6,774	7,824
Contribution restricted for staff recruitment and retention and client social opportunities	341,802	341,802
Contributions restricted for transportation vouchers	15,000	-
Contributions restricted for Brady's Biscuit Program	12,500	-
Contribution restricted for training hospital room	2,933	15,000
United Way allocation	36,345	34,150
Lien on contributed vehicles	106,635	107,942
Lien on operating facility	1,272,835	1,353,625
Grants restricted for acquisition of vehicles	78,985	129,486
Contributions restricted for future periods	154,414	151,349
	\$ 2,028,223	2,141,178

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.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(10) Net Assets With Donor Restrictions - Continued

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 net assets with donor restrictions equal to 90% of the remaining net book value of the property totaling \$1,272,835 and \$1,353,625 as of September 30, 2019 and 2018, respectively. For each of the years ended September 30, 2019 and 2018, the Organization recorded a release of restriction equal to depreciation expense on the property totaling \$80,790 and \$83,836, respectively.

(11) Board-Designated Endowment

The Board of Directors of MacDonald Training Center Foundation, Inc. has designated a portion of net assets without donor restrictions 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 net assets without donor restrictions.

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.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(11) Board-Designated Endowment - Continued

Composition of and changes in endowment fund net assets for the years ended September 30, 2019 and 2018 were as follows:

Balance at September 30, 2017	\$	1,862,033
Investment income		22,392
Realized and unrealized gains		173,866
Reclassifications		213,597
Contributions		1,504
Withdrawals		<u>(99,343)</u>
Balance at September 30, 2018		2,174,049
Investment income		46,696
Realized and unrealized gains		159,278
Reclassifications		179,397
Contributions		139,519
Withdrawals		<u>(102,527)</u>
Balance at September 30, 2019	\$	<u>2,596,412</u>

(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.

The Organization is involved in various claims and legal actions arising in the ordinary course of operations. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the combined financial position of the Organization.

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(13) 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.

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.

Fair value of assets measured on a recurring basis at September 30, 2019 is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 49,928	-	49,928	-
Certificates of deposit	711,000	-	711,000	-
Common stocks:				
US Large Growth	234,050	234,050	-	-
US Large Cap Blend	123,855	123,855	-	-
US Large Value	239,684	239,684	-	-
US Mid Cap Growth	55,606	55,606	-	-
US Mid Cap Value Equity	23,374	23,374	-	-
US Small Cap Value	19,611	19,611	-	-
US Small Cap Growth	33,066	33,066	-	-
International	75,321	75,321	-	-
Other	36,893	36,893	-	-
Mutual funds and ETF's - equities:				
US Large Growth	65,170	65,170	-	-
US Large Cap Blend	929,327	929,327	-	-
US Large Value	86,220	86,220	-	-
US Mid Cap Growth	14,811	14,811	-	-
US Mid Cap Blend	36,714	36,714	-	-
US Mid Cap Value Equity	19,210	19,210	-	-
US Small Cap Blend	95,264	95,264	-	-
US Small Cap Value	35,823	35,823	-	-
High yield bond	404,453	404,453	-	-
Ultrashort bond	176,487	176,487	-	-
International	363,584	363,584	-	-
Community Foundation investment	41,893	-	41,893	-
	<u>41,893</u>	<u>-</u>	<u>41,893</u>	<u>-</u>
Total investments	<u>\$ 3,871,344</u>	<u>3,068,523</u>	<u>802,821</u>	<u>-</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(13) Fair Value Measurements - Continued

Fair value of assets measured on a recurring basis at September 30, 2018 is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 34,429	-	34,429	-
Certificates of deposit	100,009	-	100,009	-
Common stocks:				
US Large Growth	165,604	165,604	-	-
US Large Cap Blend	20,439	20,439	-	-
US Large Value	146,906	146,906	-	-
US Mid Cap Growth	61,570	61,570	-	-
US Mid Cap Value Equity	23,173	23,173	-	-
US Small Cap Value	17,502	17,502	-	-
US Small Cap Blend	7,853	7,853	-	-
US Small Cap Growth	44,211	44,211	-	-
International	88,481	88,481	-	-
Other	21,543	21,543	-	-
Mutual funds and ETF's - equities:				
US Large Growth	43,348	43,348	-	-
US Large Cap Blend	653,490	653,490	-	-
US Large Value	34,685	34,685	-	-
US Mid Cap Growth	51,111	51,111	-	-
US Small Cap Growth	79,475	79,475	-	-
US Small Cap Blend	48,614	48,614	-	-
US Small Cap Value	11,305	11,305	-	-
High yield bond	227,673	227,673	-	-
International	333,867	333,867	-	-
Community Foundation investment	40,090	-	40,090	-
 Total investments	 \$ 2,255,378	 2,080,850	 174,528	 -

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Notes to Combined Financial Statements - Continued

(14) Liquidity and Availability of Resources

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The following represents the Organization's financial assets as of September 30, 2019 and 2018, reduced by amounts not available for general use because of contractual, donor imposed, or board reserve designations within one year of the statement of financial position date. Those amounts not available include amounts set aside for longer-term investing in the endowment.

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 331,787	502,002
Accounts receivable, net	606,952	646,927
Contributions receivable, net	274,217	320,509
Certificates of deposit	511,000	-
Investments	3,360,344	2,255,378
Total financial assets	5,084,300	3,724,816
Less amounts unavailable for general expenditure within one year due to:		
Board-designated endowment	(2,596,412)	(2,174,049)
Donor-imposed restrictions:		
Contributions restricted for future periods	(115,413)	(120,923)
Restricted for specific programs by donors	(461,220)	(488,288)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,911,255	941,556

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 not covered by donor-restricted resources.

The Organization's board has designated a portion of its unrestricted resources for endowment purposes (see Note 11). Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board.

The Organization also has lines of credit available to meet short-term needs (see Note 6).

(15) Subsequent Events

The Organization has evaluated subsequent events through February 24, 2020, 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, 2019

Assets	MacDonald Training Center, Inc.	MacDonald Training Center Properties, Inc.	MacDonald Training Center Foundation, Inc.	Eliminations	Combined Totals
Current assets:					
Cash and cash equivalents	\$ 281,427	907	49,453	-	331,787
Accounts receivable:					
Funding sources	49,799	-	-	-	49,799
Medwaiver and private insurance, net	219,966	-	-	-	219,966
Commercial, net	311,787	-	-	-	311,787
Other	23,581	504	1,315	-	25,400
Intercompany, net	228,502	-	-	(228,502)	-
Current portion of contributions receivable	154,329	-	4,474	-	158,803
Inventories	99,140	-	-	-	99,140
Certificates of deposit	511,000	-	-	-	511,000
Prepaid expenses and other current assets	60,060	16,735	5,150	-	81,945
Total current assets	1,939,591	18,146	60,392	(228,502)	1,789,627
Investments	-	-	3,360,344	-	3,360,344
Contributions receivable, less current portion	115,414	-	-	-	115,414
Property and equipment, net	331,211	2,762,908	7,452	-	3,101,571
Other assets	-	11,097	13,886	-	24,983
	<u>\$ 2,386,216</u>	<u>2,792,151</u>	<u>3,442,074</u>	<u>(228,502)</u>	<u>8,391,939</u>
Liabilities and Net Assets					
Current liabilities:					
Short-term notes payable	\$ 100,000	-	-	-	100,000
Current installments of capital lease obligations	6,644	-	-	-	6,644
Accounts payable and accrued expenses	460,223	36,340	3,192	-	499,755
Intercompany, net	-	143,027	85,475	(228,502)	-
Total current liabilities	566,867	179,367	88,667	(228,502)	606,399
Deposit liability	-	763,932	-	-	763,932
Capital lease obligations, less current installments	22,702	-	-	-	22,702
Total liabilities	589,569	943,299	88,667	(228,502)	1,393,033
Net assets	1,796,647	1,848,852	3,353,407	-	6,998,906
	<u>\$ 2,386,216</u>	<u>2,792,151</u>	<u>3,442,074</u>	<u>(228,502)</u>	<u>8,391,939</u>

MACDONALD TRAINING CENTER, INC. AND AFFILIATES

Combining Statement of Changes in Net Assets

Year Ended September 30, 2019

	MacDonald Training Center, Inc.	MacDonald Training Center Properties, Inc.	MacDonald Training Center Foundation, Inc.	Eliminations	Combined Totals
Support and revenue:					
Support:					
Special events revenue	\$ -	-	144,686	-	144,686
Less special events costs	-	-	(52,967)	-	(52,967)
Net revenue from special events	-	-	91,719	-	91,719
Contributions and grants	518,201	-	28,104	-	546,305
United Way allocation	116,760	-	-	-	116,760
	<u>634,961</u>	<u>-</u>	<u>119,823</u>	<u>-</u>	<u>754,784</u>
Revenue:					
Product sales	1,716,978	-	-	-	1,716,978
Cost of product sales	(394,261)	-	-	-	(394,261)
Net product sales	1,322,717	-	-	-	1,322,717
Medwaiver and private pay	2,656,782	-	-	-	2,656,782
Funding contracts	295,516	-	-	-	295,516
Rental income	-	23,104	-	-	23,104
Investment return designated for current operations	-	-	102,527	-	102,527
Other revenue	9,806	-	-	-	9,806
Intercompany revenue	314,474	401,131	862,925	(1,578,530)	-
	<u>4,599,295</u>	<u>424,235</u>	<u>965,452</u>	<u>(1,578,530)</u>	<u>4,410,452</u>
Total support and revenue	<u>5,234,256</u>	<u>424,235</u>	<u>1,085,275</u>	<u>(1,578,530)</u>	<u>5,165,236</u>
Expenses:					
Program services	4,505,012	1,095,241	-	(1,099,948)	4,500,305
Supporting services	865,701	186,495	308,515	(478,582)	882,129
Total expenses	<u>5,370,713</u>	<u>1,281,736</u>	<u>308,515</u>	<u>(1,578,530)</u>	<u>5,382,434</u>
Increase (decrease) in net assets before other changes	(136,457)	(857,501)	776,760	-	(217,198)
Other changes:					
Investment return in excess of amount designated for current operations	-	-	103,839	-	103,839
Gain on disposals of property	8,810	1,155,602	-	-	1,164,412
Increase (decrease) in net assets	(127,647)	298,101	880,599	-	1,051,053
Net assets at beginning of year	<u>1,924,294</u>	<u>1,550,751</u>	<u>2,472,808</u>	<u>-</u>	<u>5,947,853</u>
Net assets at end of year	<u>\$ 1,796,647</u>	<u>1,848,852</u>	<u>3,353,407</u>	<u>-</u>	<u>6,998,906</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, 2019, and the related combined statements of support and revenue without donor restrictions, expenses and other changes in net assets without donor restrictions, 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 24, 2020.

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 24, 2020
Clearwater, Florida