Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Financial Report
June 30, 2016

Contents

Independent Auditor's Report

To the Board of Directors
Melwood Horticultural Training Center, Inc.
Upper Marlboro, Maryland

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Melwood Horticultural Training Center, Inc. and Affiliates (the Center), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Gaithersburg, Maryland
October 26, 2016

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Balance Sheets
June 30, 2016 and 2015
(In Thousands)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 4,339	$ 6,841
Receivables, net	18,916	11,628
Inventory	137	217
Prepaid expenses	168	194
Total current assets	23,560	18,880
Property and equipment, net	13,933	15,715
Investments	2,728	3,033
Other assets	1,440	560
	$ 41,661	$ 38,188
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 6,300	$ 6,484
Accrued payroll and withheld taxes	3,519	4,244
Line of credit	733	-
Notes payable, current portion	766	750
Deferred revenue	376	213
Total current liabilities	11,694	11,691
Notes payable, net of current portion	2,636	3,395
Other liabilities	1	1
	14,331	15,087
Contingencies (Note 12)		
Net assets:		
Unrestricted:		
Operating	23,602	20,068
Board designated	1,507	1,736
	25,109	21,804
Temporarily restricted	1,279	355
Permanently restricted	942	942
	27,330	23,101
	$ 41,661	$ 38,188

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statements of Activities
Years Ended June 30, 2016 and 2015
(In Thousands)

	2016				2015			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Public support:								
Monetary contributions	**$ 2,236**	**$ 1,000**	**$ -**	**$ 3,236**	$ 208	$ -	$ -	$ 208
Donated items	**2,927**	**-**	**-**	**2,927**	3,112	-	-	3,112
Government and private grants	**380**	**-**	**-**	**380**	958	-	-	958
Contract revenue	**77,537**	**-**	**-**	**77,537**	70,737	-	-	70,737
Sales revenue	**71**	**-**	**-**	**71**	81	-	-	81
Service fees	**8,573**	**-**	**-**	**8,573**	8,410	-	-	8,410
Other	**347**	**-**	**-**	**347**	299	-	-	299
Net assets released from restrictions	**65**	**(65)**	**-**	**-**	68	(68)	-	-
Total public support	**92,136**	**935**	**-**	**93,071**	83,873	(68)	-	83,805
Investment loss, net	**(14)**	**(11)**	**-**	**(25)**	(3)	(3)	-	(6)
Total support and revenue	**92,122**	**924**	**-**	**93,046**	83,870	(71)	-	83,799
Expenses:								
Program expenses:								
Employment services	**66,576**	**-**	**-**	**66,576**	61,981	-	-	61,981
Community services	**7,664**	**-**	**-**	**7,664**	7,368	-	-	7,368
Therapeutic services	**1,331**	**-**	**-**	**1,331**	1,625	-	-	1,625
Veterans services	**503**	**-**	**-**	**503**	-	-	-	-
Total program expenses	**76,074**	**-**	**-**	**76,074**	70,974	-	-	70,974
Supporting services:								
Management and general	**9,808**	**-**	**-**	**9,808**	10,028	-	-	10,028
Fundraising	**2,935**	**-**	**-**	**2,935**	2,682	-	-	2,682
Total supporting services	**12,743**	**-**	**-**	**12,743**	12,710	-	-	12,710
Total expenses	**88,817**	**-**	**-**	**88,817**	83,684	-	-	83,684
Change in net assets	**3,305**	**924**	**-**	**4,229**	186	(71)	-	115
Net assets:								
Beginning	**21,804**	**355**	**942**	**23,101**	21,618	426	942	22,986
Ending	**$ 25,109**	**$ 1,279**	**$ 942**	**$ 27,330**	$ 21,804	$ 355	$ 942	$ 23,101

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2016
(In Thousands)

	Program Expenses					Supporting Services			
	Employment Services	Community Services	Therapeutic Services	Veterans Services	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	Total Expenses
Wages and salaries	$ 31,948	$ 5,060	$ 472	$ 41	$ 37,521	$ 4,938	$ 764	$ 5,702	$ 43,223
Employee benefits	11,657	803	59	6	12,525	420	126	546	13,071
Total salaries and related expenses	43,605	5,863	531	47	50,046	5,358	890	6,248	56,294
Professional and consulting fees	243	193	33	223	692	1,448	449	1,897	2,589
Supplies and materials	4,523	105	121	77	4,826	159	56	215	5,041
Buildings and occupancy	663	324	169	26	1,182	676	51	727	1,909
Equipment maintenance and rental	1,086	347	29	6	1,468	1,157	9	1,166	2,634
Support and contract services	15,109	153	5	18	15,285	118	1,444	1,562	16,847
Travel	57	245	239	73	614	109	13	122	736
Other	15	14	2	2	33	291	-	291	324
Interest and bank fees	25	4	-	-	29	252	2	254	283
Depreciation and amortization	1,250	416	202	31	1,899	240	21	261	2,160
Total expenses	$ 66,576	$ 7,664	$ 1,331	$ 503	$ 76,074	$ 9,808	$ 2,935	$ 12,743	$ 88,817

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2015
(In Thousands)

	Program Expenses				Supporting Services			
	Employment Services	Community Services	Therapeutic Services	Total Program Expenses	Management and General	Fundraising	Total Supporting Services	Total Expenses
Wages and salaries	$ 30,498	$ 4,631	$ 482	$ 35,611	$ 4,864	$ 645	$ 5,509	$ 41,120
Employee benefits	10,679	869	77	11,625	667	127	794	12,419
Total salaries and related expenses	41,177	5,500	559	47,236	5,531	772	6,303	53,539
Professional and consulting fees	791	288	139	1,218	1,041	459	1,500	2,718
Supplies and materials	4,111	77	186	4,374	287	32	319	4,693
Buildings and occupancy	477	330	176	983	895	32	927	1,910
Equipment maintenance and rental	1,308	380	50	1,738	1,257	32	1,289	3,027
Support and contract services	12,633	138	23	12,794	530	1,340	1,870	14,664
Travel	130	209	250	589	62	7	69	658
Other (recovery)	14	37	1	52	(197)	-	(197)	(145)
Interest and bank fees	49	6	-	55	180	3	183	238
Depreciation and amortization	1,291	403	241	1,935	442	5	447	2,382
Total expenses	$ 61,981	$ 7,368	$ 1,625	$ 70,974	$ 10,028	$ 2,682	$ 12,710	$ 83,684

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(In Thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ 4,229**	$ 115
Adjustments to reconcile change in net assets to net cash		
(used in) provided by operating activities:		
Depreciation and amortization	**2,160**	2,382
Change in allowance for doubtful accounts	**147**	(1,107)
Unrealized and realized loss on investment, net	**63**	53
Loss on disposal of property and equipment	**66**	114
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	**(7,435)**	2,953
Inventory	**80**	64
Prepaid expenses	**26**	57
Other assets	**(880)**	(41)
Increase (decrease) in:		
Accounts payable and accrued expenses	**(184)**	(836)
Accrued payroll and withheld taxes	**(725)**	404
Deferred revenue	**163**	20
Net cash (used in) provided by operating activities	**(2,290)**	4,178
Cash flows from investing activities:		
Purchase of property and equipment	**(445)**	(1,748)
Purchase of investments	**(1,778)**	(4,350)
Proceeds from sale of investments	**2,020**	4,303
Net cash used in investing activities	**(203)**	(1,795)
Cash flows from financing activities:		
Proceeds from notes payable	**-**	1,332
Proceeds from line of credit	**733**	-
Principal payments on notes payable	**(742)**	(532)
Net cash (used in) provided by financing activities	**(9)**	800
Net (decrease) increase in cash and cash equivalents	**(2,502)**	3,183
Cash and cash equivalents:		
Beginning	**6,841**	3,658
Ending	**$ 4,339**	$ 6,841
Supplemental disclosure of cash flow information:		
Interest paid	**$ 146**	$ 124

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Melwood Horticultural Training Center, Inc. and Affiliates (the Center) is comprised of three entities: Melwood Horticultural Training Center, Inc. (MHTC), Melwood-Dolly Housing, Inc. (MDH), and Melwood Veterans Services, LLC (MVS).

MHTC, a Maryland corporation, supports and empowers people with disabilities throughout the local Washington, D.C. national capital area, creating opportunities for their personal success. Programs include vocational training, employment, community living, leisure, travel and recreational services. MHTC serves over 2,100 people annually, is fully licensed by the Developmental Disabilities Administration of the State of Maryland, and is accredited by the Rehabilitation Accreditation Commission (CARF) and the American Camp Association (ACA). MHTC's programs are recognized locally, nationally and internationally.

Employment is provided through service contracts with major federal government agencies, with state, county, local governments and commercial firms. Financial stability is enhanced through fundraising initiatives that include a vehicle donation program. Residential services are furnished in homes owned or leased by MHTC with staff provided to meet the needs of the residents. A unique recreation and travel program provides leisure opportunities either on-site at an MHTC-owned camping facility or through planned vacation trips.

MDH is a Maryland corporation, financially supported by U.S. Department of Housing and Urban Development (HUD) funds under Section 202 of the National Housing Act, or Section 811 of the National Affordable Housing Act. Sections 202 and 811 require compliance with regulations as required by HUD. MHTC has control over the Board of Directors of MDH.

MHTC established MVS, a Maryland Limited Liability Company, on May 5, 2016 for the purpose of advocating for and empowering veterans with differing abilities to transform their own lives through unique support for reintegration, work and recreation in their communities. MHTC is the single member of MVS.

A summary of significant accounting policies of the Center is as follows:

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby, support and revenue are recognized when earned and expenses are recognized when incurred.

Basis of presentation: The consolidated financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this ASC, the Center 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.

Principles of consolidation: The consolidated financial statements include the accounts of MHTC, MDH, and MVS. All significant intercompany accounts and transactions have been eliminated for consolidation.

Cash and cash equivalents: For purposes of the consolidated statements of cash flows, the Center considers all highly liquid investments available for current use with an initial maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents held in the investment portfolio are excluded from cash and cash equivalents in reporting cash flows.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Financial risk: The Center maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center believes it is not exposed to any significant financial risk on cash.

The Center invests in professionally managed portfolio that consists of various securities. Such investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Receivables: Receivables primarily consist of amounts due on business contracts from the federal government, and are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The provision for doubtful accounts at June 30, 2016 and 2015, was $321 and $174, respectively.

Unbilled accounts receivables are included in receivables and consist of services performed prior to billing the federal government. Billings usually occur in the month after the services are performed or in accordance with specific contractual provisions.

Inventory: Inventory consists primarily of donated vehicles. Donated vehicles are stated at an estimated fair market value at the date of receipt.

Property and equipment: Property and equipment are carried at cost, less accumulated depreciation. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations for the period. The cost of maintenance and repairs is charged to operations as incurred, and significant renewals and betterments are capitalized. MHTC capitalizes all asset purchases in excess of $1.5; MDH capitalizes all asset purchases in excess of $0.5.

Depreciation of furniture, equipment, buildings and leasehold improvements is provided on a straight-line basis.

Donated property and equipment are recorded at their fair value at the date of receipt. The Center releases restrictions for contributions restricted to property and equipment as the property and equipment is placed into service. In the absence of donor-imposed restrictions on the use of the assets, gifts of long-lived assets are reported as unrestricted support.

Valuation of long-lived assets: The Center reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reflected at fair market value. To adjust the carrying values of these securities, the change in fair market value is recorded as a component of investment income (loss) in the consolidated statements of activities.

Support and revenue: Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted net assets are reported as unrestricted net assets if the restrictions are met in the same period received.

Unconditional promises to give, including grants, are recognized as revenue or gains in the period received and as assets, decreases of liabilities or expenses, depending on the form of the benefits received. Conditional promises to give, including grants, are recognized when the conditions on which they depend are substantially met.

Fixed-price contract revenue is recognized on the percentage-of-completion method. Under this method, individual contract revenue earned is measured by the percentage relationship that contract costs incurred bear to management’s estimate of total contract costs. Time and materials contracts are recognized as time is incurred at the contractual rates and materials consumed in the performance of the contract. Contract revenue received in the current period for future periods are recorded as deferred revenue.

Service fees and sales revenue are recognized when services are provided or at the point of sale.

Donated materials consist of vehicles from private donors and are recognized at the auction sale price, which approximates fair value. Funds received from the sale of vehicles are used by the Center in various ongoing programs.

Advertising: Advertising costs are expensed as incurred. For the years ended June 30, 2016 and 2015, the Center incurred advertising costs of $1,037 and $918, respectively.

Income taxes: MHTC, MDH, and MVS are generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, they qualify for charitable contribution deductions and have been classified as organizations that are not private foundations. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. MHTC, MDH and MVS did not have any net unrelated business income for the years ended June 30, 2016 and 2015.

The Center adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Center may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Management evaluated the Center's tax positions and concluded that the Center has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. Generally, the Center is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013.

Functional allocation of expenses: The costs of providing various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain supporting general and administrative costs have been allocated among the programs and supporting services benefited.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: The Center evaluated subsequent events through October 26, 2016, which is the date the consolidated financial statements were available to be issued.

Recent accounting pronouncements: In August, 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier application is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU No. 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU No. 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. ASU No.2014-09, as deferred one year by ASU No. 2015-14, will be effective for annual reporting periods beginning after December 15, 2018, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU No. 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU No. 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU No. 2014-09. The Center has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU No. 2014-09 on the consolidated financial statements.

(In Thousands)

Note 2. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2016, and depreciation expense for the year ended June 30, 2016, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6 to 40 years	$ 20,623	$ 10,936	$ 9,687	$ 702
Transportation equipment	3 to 7 years	7,095	6,533	562	683
Training equipment and furnishings	3 to 10 years	3,899	3,460	439	339
Office equipment	3 to 7 years	5,209	3,837	1,372	430
Land	–	1,508	-	1,508	-
Work in progress	–	156	-	156	-
Software in progress	–	209	-	209	-
Residential equipment	3 to 10 years	12	12	-	6
		$ 38,711	$ 24,778	$ 13,933	$ 2,160

Property and equipment and accumulated depreciation at June 30, 2015, and depreciation expense for the year ended June 30, 2015, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6 to 40 years	$ 20,623	$ 10,242	$ 10,381	$ 719
Transportation equipment	3 to 7 years	7,594	6,333	1,261	662
Training equipment and furnishings	3 to 10 years	3,648	3,121	527	316
Office equipment	3 to 7 years	5,205	3,403	1,802	684
Land	–	1,508	-	1,508	-
Software in progress	–	236	-	236	-
Residential equipment	3 to 10 years	12	12	-	1
		$ 38,826	$ 23,111	$ 15,715	$ 2,382

Note 3. Investments

Investments at June 30, 2016 and 2015, consist of the following:

	2016	2015
Equity securities, including exchange traded funds and mutual funds	$ 1,821	$ 2,089
Fixed income securities and mutual funds	782	804
Cash and cash equivalents	125	140
	$ 2,728	$ 3,033

(In Thousands)

Note 3. Investments (Continued)

Investment loss for the years ended June 30, 2016 and 2015, is comprised as follows:

	2016	2015
Interest and dividend income	$ 66	$ 93
Realized and unrealized loss	(63)	(53)
Investment fees	(28)	(46)
	$ (25)	$ (6)

Note 4. Line of Credit

The Center maintains a $15 million revolving line of credit with a bank, which will expire in March 2017. Borrowings are collateralized by all of the Center's assets. Monthly interest payments are the lower of the bank's 30-day indexed prime rate (3.5% at June 30, 2016), plus 0.5% or 3.75%. The line of credit balance as of June 30, 2016, was $733. There was no balance due on the line of credit at June 30, 2015.

Note 5. Notes Payable

Notes payable at June 30, 2016 and 2015, consist of the following:

	2016	2015
Term loan	$ 1,416	$ 1,588
Mortgage notes	606	612
Automobile loans	1,380	1,945
	$ 3,402	$ 4,145

Term loan: A bank term loan of $2,085 was acquired during April 2009. The monthly payment for the loan is $18 with an interest rate of 3.5%.

(In Thousands)

Note 5. Notes Payable (Continued)

Mortgage notes: The Center has a real estate mortgage note with a principal balance of $66 and $72 at June 30, 2016 and June 30, 2015, respectively. The real estate associated with this note is used to provide facilities-based day programming. The note has an interest rate of 6% and calls for monthly payments of principal and interest of approximately $1. In addition, MDH has a mortgage note with a principal balance of $540 and $540 at June 30, 2016 and June 30, 2015, respectively, representing a firm commitment for Capital Advance Financing provided by HUD and requires no principal and interest payments unless an event of default occurs.

Automobile loans: MHTC has automobile loans with interest rates ranging from 4.35% to 4.65% and payment terms over 60 months. Monthly payments on these loans as of June 30, 2016, total $52.

The minimum principal payments on the mortgage, term loan and automobile loans at June 30, 2016, are as follows:

Years ending June 30:		
2017	$	766
2018		470
2019		476
2020		439
2021		202
Thereafter		1,049
	$	3,402

Interest expense for the years ended June 30, 2016 and 2015, was $146 and $124, respectively.

Note 6. Fair Value Measurements

The Fair Value Measurement Topic of the FASB ASC establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. This topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

(In Thousands)

Note 6. Fair Value Measurements (Continued)

In determining the appropriate levels, the Center performs a detailed analysis of the assets and liabilities that are subject to the Fair Value Measurement Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy:

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	$ 518	$ -	$ 518	$ -
Corporate bonds	264	-	264	-
Cash and cash equivalents:				
Institutional Money Market	75	75	-	-
Equity securities:				
International	422	422	-	-
Large Blend	183	183	-	-
Real Estate	176	176	-	-
Basic materials	175	175	-	-
World Bond	162	162	-	-
Large Growth	160	160	-	-
Large Value	124	124	-	-
Services	98	98	-	-
Financial	85	85	-	-
Technology	77	77	-	-
Consumer goods	59	59	-	-
Healthcare	58	58	-	-
Industrial goods	31	31	-	-
Utilities	11	11	-	-
	$ 2,678	$ 1,896	$ 782	$ -

(In Thousands)

Note 6. Fair Value Measurements (Continued)

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	$ 589	$ -	$ 589	$ -
Corporate bonds	215	-	215	-
Cash and cash equivalents:				
Institutional money market	90	90	-	-
Equity securities:				
Ultrashort bond	300	300	-	-
International	271	271	-	-
Basic materials	192	192	-	-
Large blend	186	186	-	-
Large growth	154	154	-	-
World bond	147	147	-	-
Financial	136	136	-	-
Real estate	127	127	-	-
Large value	122	122	-	-
Healthcare	108	108	-	-
Services	106	106	-	-
Technology	100	100	-	-
Consumer goods	86	86	-	-
Industrial goods	41	41	-	-
Utilities	13	13	-	-
	$ 2,983	$ 2,179	$ 804	$ -

The equity securities of the Center are publicly traded and are considered Level 1 items. The Center's government bonds and corporate bonds are priced based on their stated interest rates and quality ratings. The interest and quality ratings are observable at commonly quoted intervals for the full term of the instruments and are, therefore, considered Level 2 items.

Cash accounts totaling $50 and $50 at June 30, 2016 and 2015, respectively, are not included in the above tables because they are recorded at cost.

(In Thousands)

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted and other funds, which are only available for program activities or general support designated for future years. Temporarily restricted net assets are available for the following purposes:

	Balance June 30, 2015	Investment Loss or Contributions	Released	Balance June 30, 2016
Donor-restricted endowment funds	$ 355	$ (11)	$ (65)	$ 279
Bequest receivable	-	1,000	-	1,000
	$ 355	$ 989	$ (65)	$ 1,279

	Balance June 30, 2014	Investment Loss or Contributions	Released	Balance June 30, 2015
Donor-restricted endowment funds	$ 426	$ (3)	$ (68)	$ 355

Note 8. Board Designated and Permanently Restricted Net Assets

The Board of Directors of MHTC has interpreted the Maryland-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. The Board has determined that the original gift value for donor-restricted funds was $942 (100% perpetual duration) as of June 30, 2016 and 2015. As a result of this interpretation, the Center classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Center and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Center
- The investment policies of the Center

(In Thousands)

Note 8. Board Designated and Permanently Restricted Net Assets (Continued)

Return objectives and risk parameters: MHTC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that MHTC must hold in perpetuity or for a donor-specified period, as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner to seek an average annual return that is higher than a similar group of investments, depending on the stated investment objectives. A specific percentage rate of return, due to the state of the economy, has not been stated. This objective shall have a long-term, indefinite time horizon, and shall provide a wide diversification of investments to reduce risk and to produce incremental returns.

Strategies employed for achieving objectives: To satisfy its long-term, incremental rate of return objectives, MHTC relies on a total return strategy, in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). MHTC targets a diversified asset allocation base with the following parameters:

	Minimum	Exposure Target	Maximum
Equities	40%	45%	50%
Fixed income	40%	45%	50%
Cash	5%	10%	10%

Spending policy and how the investment objective relates to spending policy: Both donor-restricted and board designated funds allow management to withdraw income from the endowment fund to be used for general operations. Effective for the year ended June 30, 2016, MHTC has adopted a 5% spending policy covering donor-restricted endowment funds. However, management, to date, has elected to roll over income to unrestricted funds for the board designated fund type.

Endowment net asset composition by type of fund as of June 30, 2016, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated funds	$ 1,507	$ -	$ -	$ 1,507
Donor-restricted endowment funds	-	279	942	1,221
Total funds	$ 1,507	$ 279	$ 942	$ 2,728

Endowment net asset composition by type of fund as of June 30, 2015, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated funds	$ 1,736	$ -	$ -	$ 1,736
Donor-restricted endowment funds	-	355	942	1,297
Total funds	$ 1,736	$ 355	$ 942	$ 3,033

(In Thousands)

Note 8. Board Designated and Permanently Restricted Net Assets (Continued)

Changes in endowment net assets for the year ended June 30, 2016, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,736	$ 355	$ 942	$ 3,033
Investment income (loss), net	(14)	(11)	-	(25)
Other changes:				
Appropriations	(280)	(65)	-	(345)
Designations	65	-	-	65
Endowment net assets, end of year	$ 1,507	$ 279	$ 942	$ 2,728

Changes in endowment net assets for the year ended June 30, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,671	$ 426	$ 942	$ 3,039
Investment income (loss), net	(5)	(3)	-	(8)
Other changes:				
Appropriations	-	(68)	-	(68)
Designations	70	-	-	70
Endowment net assets, end of year	$ 1,736	$ 355	$ 942	$ 3,033

Note 9. Board Designated Net Assets

Unrestricted board designated net assets at June 30, 2016 and 2015, consisted of $1,507 and $1,736, respectively, designated by the Center's Board of Directors to be used for the Melwood Endowment Fund.

Note 10. Retirement and Other Compensation Plans

The Center has a contributory 403(b) Retirement Plan for all eligible non-Service Contract Act (SCA) employees. Employees are able to participate in the Plan immediately upon hire. The Plan provides a matching employer contribution under certain conditions. Employees are eligible to receive employer matching contributions after one year of service and 1,000 hours of work with the Center. All participating employees are eligible to receive matching contributions equal to half of their elected deferral up to 5% of wages. Employees who began employment with the Center on or after January 1, 2005, are subject to a five-year graded vesting schedule; all other employees are fully vested in the Center's contributions immediately upon receipt. For the years ended June 30, 2016 and 2015, the Center contributed $305 and $244, respectively, to the Plan.

The Center has a contributory 401(k) Retirement Plan for all SCA employees. Eligible employees are able to elect to have a portion of their pay deferred to this plan. There is no employer match. Additionally, the Plan contains the Melwood Service Contract Act Retirement Plan (SCRP).

The Center has the SCRP falling under the SCA, for its service contract employees working ten or more hours per month. Employees earn Health and Welfare funding on a per hour paid basis up to a maximum of 40 hours per week. Health and Welfare dollars pay for active employee benefits. Excess funds are then collected in a Premium Reserve Account until it had a balance equivalent to three months' premiums. After that, excess Health and Welfare funding is placed in the SCRP on a quarterly basis.

The Center has an executive severance obligation for the President/Chief Executive Officer in the case of an involuntary termination without cause. Upon such an event, a predetermined portion of one year's annual salary and any prorated earned bonus is required to be paid by the Center to the President/Chief Executive Officer. This payment may be made in one lump sum or over a reasonable period of time using standard pay practices at the Center's discretion.

The Center has established a Deferred Compensation Plan under Section 457 of the IRC. The Center's contributions to the Plan are discretionary. For the years ended June 30, 2016 and 2015, there were no participants in the Plan, there were $0 contributions made to the Plan and there were $0 liabilities in the Plan. Further, the Center established a Deferred Compensation Plan under Section 457(f) of the IRC specifically designated for the benefit of the President and Chief Executive Officer. No contributions were made to this Plan for the year ended June 30, 2016.

Note 11. Customer Concentrations

During the years ended June 30, 2016 and 2015, approximately 83% of the Center's revenue was substantially derived from contracts with the federal government through the AbilityOne program. Significant reduction of funding under these contracts would have a significant impact on the operations of the Center.

Note 12. Contingencies

Grants: The Center receives support and revenue in the form of grants and contributions. The principal grantor is the State of Maryland, Department of Health and Mental Hygiene. Final determination of allowable costs is subject to audit or review by representatives or agents of the appropriate grantor. Management does not anticipate any adjustments by the grantors. The Center relies on the continued receipt of grants and contributions to provide ongoing programs.

(In Thousands)

Note 12. Contingencies (Continued)

Letters of credit: The Center has an $820 letter of credit with a financial institution to cover potential workers' compensation claims. The letter with the financial institution is required by the Center's workers' compensation insurer and allows the insurer to draw on it at any time. In addition, another letter of credit for $408 is in effect with the state of Maryland to cover unemployment costs, as the Center is self-insured. These letters of credit continue until final termination of the prior workers' compensation and until continued unemployment claims are finalized.

Claims and litigation: In the ordinary course of business, the Center is a party to claims and litigation. Management, based on consultation with legal counsel, is of the opinion that the ultimate outcome of these matters will have no material impact on the financial position, change in net assets or liquidity of the Center.

Self-insured agreement: MHTC maintains a self-insurance program for its unemployment insurance coverage for the states of Maryland, Virginia and the District of Columbia. Self-insurance cost is accrued based on claims reported as of the consolidated balance sheet date, as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insured unemployment costs was $89 and $75 as of June 30, 2016 and 2015, respectively.

Effective January 1, 2014, MHTC maintains a self-insured medical health plan model and a high-deductible workers' compensation plan, whereby MHTC covers the cost of medical claims its employees incurs. MHTC has stop loss coverage for this plan to cover claims in excess of $175 per participant per year. Employees make contributions to the plan consistent with premiums paid per the old plan based on type of coverage. MHTC's liabilities for the self-insured medical health plan and workers' compensation plan are as follows:

	2016	2015
Self-insured medical health plan	$ 546	$ 714
Workers' compensation plan	89	110
	$ 635	$ 824

RSM US LLP

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
Melwood Horticultural Training Center, Inc.
Upper Marlboro, Maryland

We have audited the consolidated financial statements of Melwood Horticultural Training Center, Inc. and Affiliates (the Center) as of and for the years ended June 30, 2016 and 2015, and have issued our report thereon, which contained an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of activities of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Gaithersburg, Maryland
October 26, 2016

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidating Balance Sheet
June 30, 2016
(In Thousands)

	MHTC	Melwood Dolly Housing, Inc.	Consolidating Adjustment	Consolidated Total
Assets				
Current assets:				
Cash and cash equivalents	$ 4,205	$ 134	$ -	$ 4,339
Receivables, net	19,195	4	(283)	18,916
Inventory	137	-	-	137
Prepaid expenses	168	-	-	168
Total current assets	23,705	138	(283)	23,560
Property and equipment, net	13,607	326	-	13,933
Investments	2,728	-	-	2,728
Other assets	1,370	70	-	1,440
	$ 41,410	$ 534	$ (283)	$ 41,661
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 6,300	$ 283	$ (283)	$ 6,300
Accrued payroll and withheld taxes	3,519	-	-	3,519
Line of credit	733	-	-	733
Notes payable, current portion	766	-	-	766
Deferred revenue	376	-	-	376
Total current liabilities	11,694	283	(283)	11,694
Notes payable, net of current portion	2,096	540	-	2,636
Other liabilities	-	1	-	1
	13,790	824	(283)	14,331
Net assets:				
Unrestricted:				
Operating	23,892	(290)	-	23,602
Board designated	1,507	-	-	1,507
	25,399	(290)	-	25,109
Temporarily restricted	1,279	-	-	1,279
Permanently restricted	942	-	-	942
	27,620	(290)	-	27,330
	$ 41,410	$ 534	$ (283)	$ 41,661

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidating Statement of Activities
Year Ended June 30, 2016
(In Thousands)

	MHTC	Melwood Dolly Housing, Inc.	Consolidating Adjustment	Consolidated Total
Support and revenue:				
Public support:				
Monetary contributions	$ 3,236	$ -	$ -	$ 3,236
Donated items	2,927	-	-	2,927
Government and private grants	380	-	-	380
Contract revenue	77,537	-	-	77,537
Sales revenue	71	-	-	71
Service fees	8,573	-	-	8,573
Other	270	77	-	347
Total public support	92,994	77	-	93,071
Investment loss	(25)	-	-	(25)
Total support and revenue	92,969	77	-	93,046
Expenses:				
Program expenses:				
Employment services	66,576	-	-	66,576
Community services	7,550	114	-	7,664
Recreational services	1,331	-	-	1,331
Veterans services	503	-	-	503
Total program expenses	75,960	114	-	76,074
Supporting services:				
Management and general	9,808	-	-	9,808
Fundraising	2,935	-	-	2,935
Total supporting services	12,743	-	-	12,743
Total expenses	88,703	114	-	88,817
Change in net assets	4,266	(37)	-	4,229
Net assets:				
Beginning	23,354	(253)	-	23,101
Ending	$ 27,620	$ (290)	$ -	$ 27,330