

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Financial Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

Board of Directors
Melwood Horticultural Training Center, Inc.

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, 2020 and 2019, 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, 2020 and 2019, 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
November 20, 2020

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Balance Sheets
June 30, 2020 and 2019
(In Thousands)

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,114	\$ 5,451
Receivables, net	19,141	19,481
Inventory	44	111
Prepaid expenses	481	426
Total current assets	28,780	25,469
Property and equipment, net	20,277	20,402
Investments	10,210	10,071
Other assets	503	1,332
	\$ 59,770	\$ 57,274
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,367	\$ 8,598
Accrued payroll and withheld taxes	5,421	4,698
Notes payable, current portion	718	761
Deferred revenue	2,619	559
Total current liabilities	18,125	14,616
Notes payable, net of current portion	1,663	2,077
Other liabilities	239	148
	20,027	16,841
Contingencies (Note 10)		
Net assets:		
Without donor restrictions:		
Undesignated	29,533	30,362
Board designated	8,902	8,709
	38,435	39,071
With donor restrictions	1,308	1,362
	39,743	40,433
	\$ 59,770	\$ 57,274

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statements of Activities

Years Ended June 30, 2020 and 2019

(In Thousands)

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:						
Public support:						
Monetary contributions	\$ 317	\$ -	\$ 317	\$ 384	\$ -	\$ 384
Donated items	2,407	-	2,407	2,442	-	2,442
Government and private grants	254	-	254	286	-	286
Contract revenue	93,309	-	93,309	95,694	-	95,694
Service fees	9,458	-	9,458	11,065	-	11,065
Other	229	-	229	736	-	736
Net assets released from restrictions	68	(68)	-	67	(67)	-
	106,042	(68)	105,974	110,674	(67)	110,607
Investment income, net	118	14	132	397	81	478
Total support and revenue	106,160	(54)	106,106	111,071	14	111,085
Expenses:						
Program expenses:						
Employment services	75,595	-	75,595	77,679	-	77,679
Community services	12,580	-	12,580	11,183	-	11,183
Therapeutic services	1,300	-	1,300	1,354	-	1,354
Veterans services	1,275	-	1,275	1,241	-	1,241
Total program expenses	90,750	-	90,750	91,457	-	91,457
Supporting services:						
Management and general	12,596	-	12,596	14,922	-	14,922
Fundraising	3,560	-	3,560	3,998	-	3,998
Total supporting services	16,156	-	16,156	18,920	-	18,920
Total expenses	106,906	-	106,906	110,377	-	110,377
Change in net assets before gain on disposition	(746)	(54)	(800)	694	14	708
Gain on disposition	110	-	110	-	-	-
Change in net assets	(636)	(54)	(690)	694	14	708
Net assets:						
Beginning	39,071	1,362	40,433	38,377	1,348	39,725
Ending	\$ 38,435	\$ 1,308	\$ 39,743	\$ 39,071	\$ 1,362	\$ 40,433

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statement of Functional Expenses
Year Ended June 30, 2020
(In Thousands)

	Program Expenses				Total Program Expenses	Supporting Services			Total Expenses
	Employment Services	Community Services	Therapeutic Services	Veterans Services		Management and General	Fundraising	Total Supporting Services	
Wages and salaries	\$ 39,911	\$ 8,472	\$ 463	\$ 606	\$ 49,452	\$ 5,404	\$ 1,088	\$ 6,492	\$ 55,944
Employee benefits	12,108	2,573	140	188	15,009	1,623	334	1,957	16,966
Total salaries and related expenses	52,019	11,045	603	794	64,461	7,027	1,422	8,449	72,910
Professional and consulting fees	21	146	10	171	348	1,185	256	1,441	1,789
Supplies and materials	3,736	119	209	48	4,112	247	63	310	4,422
Buildings and occupancy	654	231	160	21	1,066	1,220	78	1,298	2,364
Equipment, maintenance and rental	934	340	40	7	1,321	1,800	96	1,896	3,217
Support and contract services	17,534	75	1	36	17,646	215	1,498	1,713	19,359
Travel and entertainment	68	390	134	150	742	74	23	97	839
Miscellaneous expenses	36	39	-	7	82	45	92	137	219
Interest expense and bank fees	-	-	2	-	2	175	3	178	180
Depreciation expense	593	195	141	41	970	608	29	637	1,607
Total expenses	\$ 75,595	\$ 12,580	\$ 1,300	\$ 1,275	\$ 90,750	\$ 12,596	\$ 3,560	\$ 16,156	\$ 106,906

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2019
(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	\$ 40,569	\$ 8,065	\$ 433	\$ 699	\$ 49,766	\$ 5,912	\$ 987	\$ 6,899	\$ 56,665
Employee benefits	12,274	1,256	44	87	13,661	2,640	155	2,795	16,456
Total salaries and related expenses	52,843	9,321	477	786	63,427	8,552	1,142	9,694	73,121
Professional and consulting fees	28	261	21	126	436	1,453	504	1,957	2,393
Supplies and materials	4,494	118	326	44	4,982	298	44	342	5,324
Buildings and occupancy	887	271	173	20	1,351	1,392	71	1,463	2,814
Equipment, maintenance and rental	848	328	37	10	1,223	1,739	64	1,803	3,026
Support and contract services	17,879	100	1	41	18,021	195	1,667	1,862	19,883
Travel	89	452	150	182	873	155	41	196	1,069
Other	13	119	3	5	140	153	433	586	726
Interest and bank fees	3	1	5	-	9	207	2	209	218
Depreciation and amortization	595	212	161	27	995	778	30	808	1,803
Total expenses	\$ 77,679	\$ 11,183	\$ 1,354	\$ 1,241	\$ 91,457	\$ 14,922	\$ 3,998	\$ 18,920	\$ 110,377

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2020 and 2019

(In Thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (690)	\$ 708
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,607	1,803
Change in allowance for doubtful accounts	(15)	(18)
Unrealized and realized loss (gain) on investment, net	92	(263)
Gain on disposition	(110)	-
Changes in assets and liabilities:		
Increase (decrease) in:		
Receivables	355	(4,131)
Inventory	67	170
Prepaid expenses	(55)	286
Other assets	829	17
Increase (decrease) in:		
Accounts payable and accrued expenses	769	1,064
Accrued payroll and withheld taxes	727	665
Deferred revenue	2,060	417
Other liabilities	91	61
Net cash provided by operating activities	5,727	779
Cash flows from investing activities:		
Purchase of property and equipment	(1,482)	(1,032)
Purchase of investments	(5,753)	(5,849)
Proceeds from sale of investments	5,518	4,632
Net cash used in investing activities	(1,717)	(2,249)
Cash flows from financing activities:		
Principal payments on notes payable	(765)	(921)
Proceeds from notes payable	418	546
Net cash used in financing activities	(347)	(375)
Net increase (decrease) in cash and cash equivalents	3,663	(1,845)
Cash and cash equivalents:		
Beginning	5,451	7,296
Ending	\$ 9,114	\$ 5,451
Supplemental disclosure of cash flow information:		
Interest paid	\$ 113	\$ 112

See notes to consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Melwood Horticultural Training Center, Inc. and Affiliates (the Center) is comprised of four entities: Melwood Horticultural Training Center, Inc. (MHTC), Melwood-Dolly Housing, Inc. (MDH), Melwood Veterans Services, LLC (MVS), and Linden Resources, Inc. (Linden). Linden was dissolved during the year ended June 30, 2019, and was fully integrated into MHTC.

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 Commission on Accreditation of Rehabilitation Facilities (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. Support 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 had control over the Board of Directors of MDH. MDH was disposed of during the year ended June 30, 2020 when the Board of MHTC transferred control of the entity to an unrelated nonprofit organization.

MHTC established MVS, a Maryland Limited Liability Company, on May 5, 2016, for the purpose of assisting veterans with employment, career development, community reintegration and identifying additional resources and support services they need to thrive both in their professional and personal lives. Some of MVS' programming provides veterans suffering from physical and emotional trauma with strategies and techniques to approach life with renewed purpose and positivity. MHTC is the single member of MVS. As of June 30, 2020, there has yet to be any economic activity within the MVS entity.

Effective July 1, 2017, the Center became the sole member of Linden and has the ability to control the composition of Linden's Board of Directors. Linden was a 501(c)(3) nonprofit organization that was established in 1959 with a similar mission as the Center's exempt purpose. During the year ended June 30, 2019, Linden completed transition matters to MHTC and effectively terminated.

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

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

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

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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.

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 a 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, 2020 and 2019, was \$294 and \$307, 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 held for sale. Donated vehicles are stated at an estimated fair 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 capitalized all asset purchases in excess of \$0.5; Linden capitalized all asset purchases in excess of \$1.5.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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

Depreciation of furniture, equipment, buildings and building improvements is provided on a straight-line basis over their estimated useful lives.

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.

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

Support and revenue: Unconditional contributions received are recorded as without donor restrictions, or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Conditional contributions are not recorded until the conditions have been met. A conditional contribution is a contribution that contains both a barrier (performance obligations and/or elements of control) and a right of return/refund.

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

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 ratably over the contract term based on proportional performance or straight-line method, as appropriate. 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 is 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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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

Advertising: Advertising costs are expensed as incurred. For the years ended June 30, 2020 and 2019, the Center incurred advertising costs of \$1,171 and \$1,176, respectively.

Income taxes: MHTC, Linden, 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, Linden, MDH and MVS did not have any material net unrelated business income for the years ended June 30, 2020 and 2019.

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.

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 2017.

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 overhead and facility 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.

Reclassification: Certain reclassifications to the 2019 balances have been made in the consolidated financial statements to make them consistent with the 2020 presentation. These reclassifications had no effect on previously reported changes in net assets.

Subsequent events: The Center evaluated subsequent events through November 20, 2020, which is the date the consolidated financial statements were available to be issued.

Recent accounting pronouncement (adopted): In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this ASU require that a statement of cash flows explains the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU was effective for fiscal years beginning after December 15, 2018. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. The ASU did not have a material impact on the consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

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

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. As the Center is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, including interim periods. Where the Center is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019, including interim periods. Early adoption is permitted. The Center adopted the provisions of the ASU applicable to resource recipients during the year ended June 30, 2020 using the modified prospective method.

Recent accounting pronouncements (not adopted): In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Additional updates have been made in 2015 and 2016 to further clarify the guidance in Topic 606. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America (U.S. GAAP), including industry specific guidance, and permits the use of either a full retrospective or retrospective with cumulative-effect transition method. The updated standard becomes effective for the Center for annual reporting periods beginning after December 15, 2019. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Center has not elected to early adopt this standard for the year ended June 30, 2020, and has not yet selected a transition method. The Center is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2020, and interim periods beginning after December 15, 2022. In addition, in July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*. The standard provides further guidance on technical issues brought to the FASB's attention in connection with the implementation of ASU 2016-02. The effective date is the same as the effective date of ASU 2016-02. The Center is currently evaluating the impact of adopting the new standard on the consolidated financial statements.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 2. Property and Equipment

Property and equipment and accumulated depreciation at June 30, 2020, and depreciation expense for the year ended June 30, 2020, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6 to 40 years	\$ 25,227	\$ 13,708	\$ 11,519	\$ 736
Transportation equipment	3 to 7 years	8,102	7,152	950	377
Training equipment and furnishings	3 to 10 years	5,626	4,542	1,084	363
Office equipment	3 to 7 years	5,835	5,065	770	120
Land	–	5,809	-	5,809	-
Work in progress – construction	–	145	-	145	-
Residential equipment	3 to 10 years	11	11	-	11
		<u>\$ 50,755</u>	<u>\$ 30,478</u>	<u>\$ 20,277</u>	<u>\$ 1,607</u>

Property and equipment and accumulated depreciation at June 30, 2019, and depreciation expense for the year ended June 30, 2019, are as follows:

Asset Category	Estimated Useful Lives	Cost	Accumulated Depreciation	Net Book Value	Depreciation
Buildings and improvements	6 to 40 years	\$ 25,413	\$ 13,223	\$ 12,190	\$ 850
Transportation equipment	3 to 7 years	7,811	7,193	618	368
Training equipment and furnishings	3 to 10 years	4,906	4,182	724	398
Office equipment	3 to 7 years	5,493	4,882	611	151
Land	–	5,809	-	5,809	-
Work in progress – construction	–	193	-	193	-
Residential equipment	3 to 10 years	336	78	257	36
		<u>\$ 49,961</u>	<u>\$ 29,558</u>	<u>\$ 20,402</u>	<u>\$ 1,803</u>

Note 3. Investments

Investments at June 30, 2020 and 2019, consist of the following:

	2020	2019
Equity securities, including exchange traded funds and mutual funds	\$ 5,328	\$ 5,286
Fixed income securities and mutual funds	2,504	2,512
Cash and cash equivalents	2,378	2,273
	<u>\$ 10,210</u>	<u>\$ 10,071</u>

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 3. Investments (Continued)

Net Investment income for the years ended June 30, 2020 and 2019, is comprised as follows:

	2020	2019
Interest and dividend income	\$ 283	\$ 274
Realized and unrealized (losses) gains, net	(92)	263
Investment fees	(59)	(59)
	<u>\$ 132</u>	<u>\$ 478</u>

Note 4. Line of Credit

The Center maintains a \$15,000 revolving line of credit with a bank, which will expire in May 2021. Borrowings are collateralized by all of the Center's assets. Monthly interest payments are the bank's 30-day indexed prime rate (3.25% and 5.5% at June 30, 2020 and 2019, respectively) plus 0%. The line of credit balance as of June 30, 2020 and 2019, was \$0.

Note 5. Notes Payable

Notes payable at June 30, 2020 and 2019, consist of the following:

	2020	2019
Term loan	\$ 673	\$ 866
Mortgage notes	37	587
Automobile loans	1,671	1,376
Capital leases	-	9
	<u>\$ 2,381</u>	<u>\$ 2,838</u>

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%. The loan matures on July 24, 2023.

Mortgage notes: The Center has a real estate mortgage note with a principal balance of \$37 and \$47 at June 30, 2020 and 2019, 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 had a mortgage note with a principal balance of \$540 at June 30, 2019, representing a firm commitment for Capital Advance Financing provided by HUD and which required no principal and interest payments unless an event of default occurs. MDH was disposed of during 2020, as described in Note 1.

Automobile loans: MHTC has automobile loans with various interest rates averaging 4.75% and payment terms over 60 months. Monthly payments on these loans as of June 30, 2020, total \$46.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 5. Notes Payable (Continued)

The minimum principal payments on the mortgage, term loan, and automobile loans at June 30, 2020, are as follows:

Years ending June 30:		
2021	\$	718
2022		672
2023		560
2024		353
2025		78
	\$	<u>2,381</u>

Interest expense for the years ended June 30, 2020 and 2019, was \$113 and \$112, 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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (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, 2020			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	\$ 1,465	\$ -	\$ 1,465	\$ -
Corporate bonds	1,039	-	1,039	-
Cash and cash equivalents:				
Institutional money market	2,378	2,378	-	-
Equity securities:				
Basic materials	292	292	-	-
Communication services	63	63	-	-
Consumer discretionary	488	488	-	-
Consumer staples	291	291	-	-
Energy	149	149	-	-
Financial services	398	398	-	-
Healthcare	278	278	-	-
Industrials	442	442	-	-
Large growth	690	690	-	-
Large value	614	614	-	-
Multialternative	863	863	-	-
Real estate	126	126	-	-
Technology	536	536	-	-
Utilities	98	98	-	-
	<u>\$ 10,210</u>	<u>\$ 7,706</u>	<u>\$ 2,504</u>	<u>\$ -</u>

Melwood Horticultural Training Center, Inc. and Affiliates

**Notes to Consolidated Financial Statements
(In Thousands)**

Note 6. Fair Value Measurements (Continued)

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Fixed income:				
Government bonds	\$ 985	\$ -	\$ 985	\$ -
Corporate bonds	1,527	-	1,527	-
Cash and cash equivalents:				
Institutional money market	2,273	2,273	-	-
Equity securities:				
Basic materials	259	259	-	-
Communication services	46	46	-	-
Consumer cyclical	642	642	-	-
Consumer defensive	545	545	-	-
Consumer services	239	239	-	-
Energy	303	303	-	-
Financial	343	343	-	-
Healthcare	123	123	-	-
Industrial goods	390	390	-	-
Large growth	219	219	-	-
Large value	481	481	-	-
Multialternative	290	290	-	-
Real estate	470	470	-	-
Technology	686	686	-	-
Utilities	98	98	-	-
World bond	152	152	-	-
	<u>\$ 10,071</u>	<u>\$ 7,559</u>	<u>\$ 2,512</u>	<u>\$ -</u>

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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 7. Net Assets

Net assets with donor restrictions include donor-restricted funds, which are only available for program activities or general support designated for future years. Also, 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, 2020 and 2019. As a result of this interpretation, the Center classifies the permanently restricted \$942 as a part of net assets with donor restrictions: (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 with donor-restricted endowment fund that is not classified as the \$942 permanently restricted net assets is also classified as with net assets with donor restrictions, until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA.

	Balance June 30, 2019	Investment Gains or Contributions	Released	Balance June 30, 2020
Endowment funds – held in perpetuity	\$ 942	\$ -	\$ -	\$ 942
Amounts subject to UPMIFA policy	420	14	(68)	366
	<u>\$ 1,362</u>	<u>\$ 14</u>	<u>\$ (68)</u>	<u>\$ 1,308</u>

	Balance June 30, 2018	Investment Gains or Contributions	Released	Balance June 30, 2019
Endowment funds – held in perpetuity	\$ 942	\$ -	\$ -	\$ 942
Amounts subject to UPMIFA policy	406	81	(67)	420
	<u>\$ 1,348</u>	<u>\$ 81</u>	<u>\$ (67)</u>	<u>\$ 1,362</u>

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 with 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

Melwood Horticultural Training Center, Inc. and Affiliates

**Notes to Consolidated Financial Statements
(In Thousands)**

Note 7. Net Assets (Continued)

Return objectives and risk parameters: MHTC has adopted investment and spending policies for investment assets that attempt to provide a predictable stream of funding to programs supported by its investment, while seeking to maintain the purchasing power of the investment assets. Investment 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 investment assets are invested in a manner to seek average annual returns that are on par with similar groups of investments, depending on the stated investment objectives. A specific percentage rate of return, due to the state of the economy, has not been determined. 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	Current Exposure	Maximum
Equities	40%	52%	60%
Fixed income	30%	25%	50%
Cash	0%	23%	10%

Spending policy and how the investment objective relates to spending policy: Both with 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, 2017, MHTC has adopted a 5% to 7% 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.

Unrestricted board designated net assets at June 30, 2020 and 2019, consisted of \$8,902 and \$8,709, respectively, designated by the Center's Board of Directors to be used for the Melwood Investment Fund.

Investment net asset composition by type of fund as of June 30, 2020, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	\$ 8,902	\$ -	\$ 8,902
Donor-restricted endowment funds	-	1,308	1,308
Total funds	\$ 8,902	\$ 1,308	\$ 10,210

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 7. Net Assets (Continued)

Investment net asset composition by type of fund as of June 30, 2019, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board designated funds	\$ 8,709	\$ -	\$ 8,709
Donor-restricted endowment funds	-	1,362	1,362
Total funds	<u>\$ 8,709</u>	<u>\$ 1,362</u>	<u>\$ 10,071</u>

Changes in investment net assets for the year ended June 30, 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment net assets, beginning of year	\$ 8,709	\$ 1,362	\$ 10,071
Investment income, net	118	14	132
Contributions	75	-	75
Other changes:			
Appropriations	-	(68)	(68)
Investment net assets, end of year	<u>\$ 8,902</u>	<u>\$ 1,308</u>	<u>\$ 10,210</u>

Changes in investment net assets for the year ended June 30, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Investment net assets, beginning of year	\$ 7,243	\$ 1,348	\$ 8,591
Investment income, net	397	81	478
Contributions	1,069	-	1,069
Other changes:			
Appropriations	-	(67)	(67)
Investment net assets, end of year	<u>\$ 8,709</u>	<u>\$ 1,362</u>	<u>\$ 10,071</u>

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 8. 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 three-year graded vesting schedule; all other employees are fully vested in the Center's contributions immediately upon receipt. For the years ended June 30, 2020 and 2019, the Center contributed \$163 and \$233, 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 (SCRCP).

The Center has the SCRCP falling under the SCA for its service contract employees working 10 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 has a balance equivalent to three months' premiums. After that, excess Health and Welfare funding is placed in the SCRCP on a quarterly basis.

The Center has a contingent executive severance obligation for the President and 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 two deferred compensation plans under Section 457(b) and Section 457(f) of the IRC for the benefit of the President and Chief Executive Officer. Eligible contributions made the 457(b) plan vest immediately but contributions made to the 457(f) plan vest on June 30, 2020. Assets in the plans at June 30, 2020 and 2019, were \$239 and \$179, respectively, and included in other assets on the consolidated balance sheets. Accrued liabilities related to the plans at June 30, 2020 and 2019, were \$239 and \$147, respectively, and included in other liabilities in the consolidated balance sheets.

Note 9. Customer Concentrations

During the years ended June 30, 2020 and 2019, 88% and 86% of the Center's revenue, respectively, 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.

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 10. 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.

Letters of credit: The Center has \$1,195 in letters 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 \$448 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 not have a 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 \$450 and \$489 as of June 30, 2020 and 2019, 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 incur. MHTC has stop loss coverage for this plan to cover claims in excess of \$200 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:

	2020	2019
Self-insured medical health plan	\$ 1,197	\$ 1,163
Workers' compensation plan	450	489
	<u>\$ 1,647</u>	<u>\$ 1,652</u>

Melwood Horticultural Training Center, Inc. and Affiliates

Notes to Consolidated Financial Statements (In Thousands)

Note 11. Liquidity

MHTC regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of June 30, 2020, the following financial assets are available to meet annual operating needs of the 2021 fiscal year:

	2020	2019
Cash and cash equivalents	\$ 9,114	\$ 5,451
Accounts receivable, net	19,141	19,481
Anticipated withdrawal on endowment in 2021 and 2020, respectively	68	67
Total financial assets available for general expenditure within one year	<u>\$ 28,323</u>	<u>\$ 24,999</u>

MHTC has various sources of liquidity at its disposal, including cash and cash equivalents, and a line of credit. See Note 4 for information about the Center's line of credit.

In general, principal and interest on endowment are board-designated investments and the funds are not included in the analysis as those amounts are for long-term expanding beyond one year or more, therefore, these assets are not available to meet current operating needs. However, as a part of MHTC's policy, 5% to 7% of net assets with donor restrictions endowment funds are moved and available for general operations at management discretion. Unconditional contributions received or receivable due within one year are considered available for use in meeting annual operating needs (liquid), and conditional contributions become liquid as barriers/obligations are met. As discussed in Note 8, the Board has designated net assets in the amount of \$8,709 for long-term investment. As such, these funds are not reflected as available for general expenditure over the next 12 months. However, the Board may undesignate all or a portion of these funds on a current basis at its discretion.

Note 12. COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a Public Health Emergency of International Concern and on March 11, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Center's operations, suppliers, or other vendors, and customer base. The operations for the Center's services could be negatively impacted by the regional and global outbreak of COVID-19, including stop-work orders on existing contract work for an unknown period of time. Any quarantines, labor shortages or other disruptions to the Center's operations, or those of their customers, may adversely impact the Center's revenues, ability to provide its services and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which the Center operates, resulting in an economic downturn that could affect demand for their services. The extent to which COVID-19 impacts the Center's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information, which may emerge concerning the severity of COVID-19 and actions taken to contain COVID-19 or its impact, among others. To date the Center has not experienced a significant impact on operations as the Center primarily works with the Federal government and operations have been maintained.



RSM US LLP

Independent Auditor's Report on the Supplementary Information

Board of Directors
Melwood Horticultural Training Center, Inc.

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, 2020 and 2019, and have issued our report thereon, which contained an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were conducted 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 changes in net assets and cash flows 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
November 20, 2020

Melwood Horticultural Training Center, Inc. and Affiliates

**Consolidating Balance Sheet
June 30, 2020
(In Thousands)**

	MHTC	Melwood- Dolly Housing, Inc.	Consolidating Adjustment	Consolidated Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 9,114	\$ -	\$ -	\$ 9,114
Receivables, net	19,141	-	-	19,141
Inventory	44	-	-	44
Prepaid expenses	481	-	-	481
Total current assets	28,780	-	-	28,780
Property and equipment, net	20,277	-	-	20,277
Investments	10,210	-	-	10,210
Other assets	503	-	-	503
	\$ 59,770	\$ -	\$ -	\$ 59,770
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 9,367	\$ -	\$ -	\$ 9,367
Accrued payroll and withheld taxes	5,421	-	-	5,421
Notes payable, current portion	718	-	-	718
Deferred revenue	2,619	-	-	2,619
Total current liabilities	18,125	-	-	18,125
Notes payable, net of current portion	1,663	-	-	1,663
Other liabilities	239	-	-	239
	20,027	-	-	20,027
Net assets:				
Without donor restrictions				
Undesignated	29,533	-	-	29,533
Board designated	8,902	-	-	8,902
	38,435	-	-	38,435
With donor restrictions	1,308	-	-	1,308
	39,743	-	-	39,743
	\$ 59,770	\$ -	\$ -	\$ 59,770

Melwood Horticultural Training Center, Inc. and Affiliates

Consolidating Statement of Activities
Year Ended June 30, 2020
(In Thousands)

	MHTC	Melwood- Dolly Housing, Inc.	Consolidating Adjustment	Consolidated Total
Support and revenue:				
Public support:				
Monetary contributions	\$ 317	\$ -	\$ -	\$ 317
Donated items	2,407	-	-	2,407
Government and private grants	254	-	-	254
Contract revenue	93,309	-	-	93,309
Service fees	9,458	-	-	9,458
Other	143	86	-	229
Intercompany contribution revenue	-	532	(532)	-
Total public support	105,888	618	(532)	105,974
Investment income, net	132	-	-	132
Total support and revenue	106,020	618	(532)	106,106
Expenses:				
Program expenses:				
Employment services	75,595	-	-	75,595
Community services	12,503	77	-	12,580
Therapeutic services	1,300	-	-	1,300
Veterans services	1,275	-	-	1,275
Intercompany contribution expense	532	-	(532)	-
Total program expenses	91,205	77	(532)	90,750
Supporting services:				
Management and general	12,581	15	-	12,596
Fundraising	3,560	-	-	3,560
Total supporting services	16,141	15	-	16,156
Total expenses	107,346	92	(532)	106,906
Change in net assets before gain on disposition	(1,326)	526	-	(800)
Gain on disposition	-	110	-	110
Change in net assets	(1,326)	636	-	(690)
Net assets:				
Beginning (deficit)	41,069	(636)	-	40,433
Ending	\$ 39,743	\$ -	\$ -	\$ 39,743