Hinds Hospice

Since 1981

Honoring the Journey

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

HINDS HOSPICE
FRESNO, CALIFORNIA
SEPTEMBER 30, 2013 AND 2012

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PRICE PAIGE & COMPANY
Accountancy Corporation

The Place to Be

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hinds Hospice
Fresno, California

We have audited the accompanying consolidated financial statements of Hinds Hospice (a non-profit corporation), which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hinds Hospice as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2012 financial statements, and our report dated January 17, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Price Paige & Company

Clovis, California
January 17, 2014

HINDS HOSPICE
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	$ 1,787,325	$ 769,076
Accounts receivable, net	1,406,092	1,195,654
Grants receivable	17,850	22,951
Unconditional promises to give	335,873	82,722
Medical supplies inventory	55,276	30,296
Prepaid and other current assets	62,950	92,908
Total current assets	3,665,366	2,193,607
Property and equipment, net	2,948,232	244,578
Investment securities	1,502,597	1,868,433
Other assets	83,486	66,844
Total assets	$ 8,199,681	$ 4,373,462
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 419,861	$ 405,070
Accrued expenses	990,080	734,399
Deposits	16,367	-
Line-of-Credit	-	-
Capital lease obligations, currrent portion	12,819	9,702
Mortgage payable, current portion	87,667	-
Total current liabilities	1,526,794	1,149,171
Capital lease obligations	25,192	30,306
Mortgage payable	1,884,833	-
Total liabilities	3,436,819	1,179,477
Net assets:		
Unrestricted	4,409,139	3,088,312
Temporarily restricted	353,723	105,673
Total net assets	4,762,862	3,193,985
Total liabilities and net assets	$ 8,199,681	$ 4,373,462

HINDS HOSPICE
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(With Summarized Financial Information for 2012)

	Unrestricted	Temporarily Restricted	2013 Total	2012 Total
Revenues and support:				
Patient revenues, net	$ 11,640,979	$ -	$ 11,640,979	$ 9,754,245
Donations and memorials	1,394,499	325,159	1,719,658	652,101
Community service grants and funds	18,701	17,500	36,201	50,649
Special events and activities	1,063,339	-	1,063,339	1,022,910
Thrift stores, net	170,499	-	170,499	197,313
Rental income	288,989	-	288,989	-
Miscellaneous income	-	-	-	2,374
Investment income, net	137,759	-	137,759	288,433
Total revenues and support before Net assets released from restrictions	14,714,765	342,659	15,057,424	11,968,025
Net assets released from restrictions	94,609	(94,609)	-	-
Total revenues and support after reclassification of net assets released from restrictions	14,809,374	248,050	15,057,424	11,968,025
Costs and expenses:				
Program services	11,968,622	-	11,968,622	10,387,685
General and administrative	794,543	-	794,543	356,324
Fund raising	725,382	-	725,382	672,138
Total costs and expenses	13,488,547	-	13,488,547	11,416,147
Change in net assets	1,320,827	248,050	1,568,877	551,879
Net assets, beginning of year	3,088,312	105,673	3,193,985	2,642,106
Net assets, end of year	$ 4,409,139	$ 353,723	$ 4,762,862	$ 3,193,985

HINDS HOSPICE
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(With Summarized Financial Information for 2012)

		Supporting Services		2013	2012
	Program Services	General & Administrative	Fund Raising	Total Expenses	Total Expenses
Personnel costs:					
Salaries	$ 7,346,479	$ 298,644	$ 387,079	$ 8,032,202	$ 7,112,169
Payroll taxes	580,672	23,605	30,595	634,872	558,342
Employee benefits	1,119,930	45,526	59,008	1,224,464	986,411
Total personnel costs	9,047,081	367,775	476,682	9,891,538	8,656,922
Other costs and expenses:					
Advertising and promotion	6,238	-	6,237	12,475	11,306
Bad debts	54,486	-	-	54,486	28,117
Bank and payroll fees	22,072	7,148	7,422	36,642	30,490
Communication / telephone	117,128	4,762	6,171	128,061	112,315
Dues and subscriptions	31,149	1,266	1,641	34,056	26,272
Education	27,820	1,131	1,466	30,417	11,664
Equipment rental	396,441	16,288	666	413,395	344,142
Food	14,844	603	782	16,229	16,511
Information systems	37,657	1,531	1,984	41,172	39,159
Insurance	95,802	44,334	5,048	145,184	98,564
Interest	3,755	68,600	198	72,553	4,326
Legal and accounting fees	62,012	21,357	2,058	85,427	64,015
Maintenance and repairs	7,407	61,917	390	69,714	11,905
Medical supplies / pharmacy	602,827	-	-	602,827	530,268
Office supplies	48,049	2,213	2,532	52,794	63,412
Other	52,694	2,261	2,776	57,731	70,469
Other fundraising and gala event	-	-	156,535	156,535	158,286
Postage and shipping	27,019	1,507	12,004	40,530	37,853
Printing	57,878	2,757	13,523	74,158	79,290
Professional services	426,744	46,887	7,101	480,732	235,530
Purchased services, clinical	90,003	-	-	90,003	55,217
Rent and occupancy	228,075	9,272	12,017	249,364	245,268
Taxes and licenses	7,486	305	394	8,185	7,593
Travel and transportation	408,799	15,918	3,402	428,119	372,550
Utilities	17,617	74,453	928	92,998	17,788
Total other costs and expenses	2,844,002	384,510	245,275	3,473,787	2,672,310
Sub-total	11,891,083	752,285	721,957	13,365,325	11,329,232
Depreciation and amortization	77,539	42,258	3,425	123,222	86,914
Total costs and expenses	$ 11,968,622	$ 794,543	$ 725,382	$ 13,488,547	$ 11,416,147

See Independent Auditor's Report and Notes to the Financial Statements.

HINDS HOSPICE
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 1,568,877	$ 551,879
Adjustments to reconcile changes in net assets to		
Net cash provided by (used in) operating activities:		
Depreciation	127,432	94,763
Bad debts	54,486	28,117
Donated securities	(1,082)	-
Unrealized gains	(63,097)	(299,412)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(259,823)	(85,437)
Unconditional promises to give	(253,151)	5,099
Medical supplies inventory	(24,980)	2,525
Prepaid and other current assets	29,958	36,185
Other assets	(16,642)	10,494
Accounts payable	14,791	81,787
Accrued expenses	255,681	91,524
Deposits	16,367	-
Net cash provided by (used in) operating activities	1,448,817	517,524
Cash flows from investing activities:		
Purchase of building and equipment	(850,121)	(133,212)
Investment sales proceeds	499,483	-
Investment purchases	(69,468)	(2,400)
Net cash provided by investing activities	(420,106)	(135,612)
Cash flows from financing activities:		
Advances on the line-of-credit	537,797	2,100,000
Principal payments on line-of-credit	(537,797)	(2,100,000)
Principal payments on capital lease obligations	(10,462)	(5,461)
Net cash provided by (used in) financing activities	(10,462)	(5,461)
Increase in cash and cash equivalents	1,018,249	376,451
Cash and cash equivalents, beginning of year	769,076	392,625
Cash and cash equivalents, end of year	$ 1,787,325	$ 769,076
Supplemental disclosures of cash flow information:		
Interest paid	$ 72,553	$ 4,326
Non-cash investing and financing activities:		
Capitalized lease equipment	$ 8,465	$ 43,330
Acquistion of building	$ 1,972,500	$ -

See Independent Auditor’s Report and Notes to the Financial Statements.

NOTE 1 – ORGANIZATION AND OPERATIONS

Hinds Hospice (the "Organization") is a California non-profit corporation formed in June 1985 for the purpose of providing care and comfort to the terminally ill and their families.

The Organization presently operates an in-patient hospice facility in Fresno and provides service to hospice certified patients on an out-patient basis in Fresno, Madera and Merced counties. The Organization also operates five thrift stores located in Chowchilla, Clovis, Kerman, Madera, and Sanger, however, the Kerman thrift stores was closed in June 2013. The thrift stores receive merchandise donations from the community and are staffed by paid managers and volunteers. All proceeds from the thrift stores are used to support the Organization's hospice services.

The Organization owns its Fresno in-patient facility. All other administrative, out-patient service and thrift store facilities utilize leased premises.

During December 2012, the Organization purchased a commercial real estate building. In connection with the acquisition of the commercial real estate property, the Organization formed Hospice Charitable Properties, Inc., an affiliate of the Organization (the "Affiliate") pursuant to Internal Revenue Code Section 501(c)(2), a title holding corporation. The Affiliate was established to hold title to the commercial building and manage the rental activities of the existing tenants.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At September 30, 2013 and 2012, the Organization had no permanently restricted net assets.

The Consolidated Statements of Activities and Functional Expenses include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2012, from which the summarized information was derived.

Cash and Cash Equivalents

Cash consists of various demand and interest-bearing accounts on deposit with insured financial and brokerage institutions. The Organization considers cash equivalents to include all investments available for current use with an original maturity of three months or less. All cash and cash equivalents are deemed available for operations and classified as current assets.

Investments

Investments are stated at their estimated fair value based on quoted closing prices. Investments that are managed on a long-term basis or which are not expected to be used in the Organization's operations within the year following the balance sheet date are classified as non-current.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

The Organization provides an allowance for doubtful accounts based upon management's review and analysis of specific patient receivables and considers the age of past due accounts. Accounts Receivable are written-off when deemed uncollectible. Recoveries of Accounts Receivable previously written-off are recorded as income when received. Total Bad Debts, net of recoveries, for uncollectible accounts during the years ended September 30, 2013 and 2012 were $54,486 and $28,117, respectively.

Medical Supplies Inventory

Inventory consists of routine patient care supplies used in the Organization's daily operations and is stated at the lower of cost (determined on the first-in, first-out basis) or market.

Property and Equipment

Property and equipment are stated at cost or, if donated and placed into service, at their estimated fair value at the date donated. All assets acquired by the Organization whose initial value or cost exceeds $1,000 are capitalized and depreciated. Routine repairs and maintenance, including planned major maintenance activities are expensed when incurred. Depreciation is computed using straight-line methods over the following estimated useful lives:

Buildings and improvements	5 to 39 Years
Medical equipment	5 Years
Furniture, fixtures and office equipment	2 to 5 Years

The Organization's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recovered. When required, impairment losses on such assets are recognized based on the fair value of the asset, and long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. No impairment losses were recognized during the years ended September 30, 2013 and 2012.

Revenue Recognition

The Organization recognizes revenue from patient services as it is earned based on the number of days care is provided. All patients are billed monthly. The Organization receives substantially all of its patient revenues from a combination of Medicare, Medi-Cal, or private insurance programs. Annually, the Organization establishes standard rates for its various patient services. However, payments by third party payers are generally less than the Organization's standard rates. In the years ended September 30, 2013 and 2012, the Organization's standard rates for patient services were approximately $1,700,000 and $1,400,000, respectively, greater than the amounts paid by third party payers. Such amounts have not been included in the Organization's net revenues in the accompanying Consolidated Statement of Activities.

The Organization provides charity care to patients who are unable to pay for the care provided. The Organization maintains direct and indirect costs related to providing care to patients. The total amount of direct and indirect costs of providing charity care to patients were approximately $79,100 and $26,900, respectively, for the year ended September 30, 2013 and approximately $55,200 and $20,200, respectively, for the year ended September 30, 2012.

Revenue from grants is recognized in the year in which the Grantor is contractually obligated to fund the grant or when received, as applicable.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions are generally recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. Unconditional Promises to Give in future periods, principally bequests, are recorded as they are made, at their estimated net realizable value and reported as temporarily restricted funds. Unconditional Promises to Give at September 30, 2013 and 2012 were $335,873 and $82,722, respectively, which represent contributions and the estimated net realizable value of decedents' testamentary bequests to the Organization payable after year-end. Unconditional Promises to Give is classified as a current asset, as it is expected to be collected within one year. Conditional Promises to Give are recognized when the conditions on which they depend are substantially met.

The Organization reports gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a pledge is collected or a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as Net Assets Released from Restrictions. Net Assets Released from Restrictions during the years ended September 30, 2013 and 2012 were $94,609 and $101,950, respectively.

Thrift Stores

Contributions of clothing, household goods and other items to the Organization's thrift stores are recognized as thrift store revenues when, and if, sold. Inventories of such items in the thrift stores are not included as Organization assets in the Consolidated Statement of Financial Position.

Thrift store revenues are reported net of related operating expenses in the Statement of Activities. Thrift store expenses, including depreciation, have been excluded from the Consolidated Statement of Functional Expenses and included with Thrift Store revenues (Note 12).

Functional Allocation of Expenses

The costs of providing the Organization's non-thrift store programs and supporting services have been summarized on a functional basis in the Consolidated Statement of Functional Expenses. Certain overhead and indirect costs have been allocated to program services and fundraising based on management's estimate of the actual personnel and facilities utilized in such activities.

Donated In-Kind Gifts and Services

Donated in-kind gifts are recognized as contributions if they have ascertainable fair values and are able to be realized in cash or other liquid assets. During the years ended September 30, 2013 and 2012, the Organization received and recognized approximately $63,500 and $47,500, respectively, of merchandise contributions that were later sold, raffled or auctioned during its Gala and other fundraising events.

Donated services are recognized as contributions if they 1) significantly enhance non-financial assets or 2) involve a professional service that would otherwise have been purchased and whose values can be objectively measured. For the years ended September 30, 2013 and 2012, the Organization received approximately $29,100 and $20,600, respectively, in donated services related to its fundraising events.

Advertising and Promotion

The Organization expenses all advertising and promotion costs as incurred. Total advertising and promotion expenses at September 30, 2013 and 2012 were $16,537 and $20,549, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes

The Organization has qualified as a non-profit organization and has been granted tax-exempt status pursuant to Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and is exempt from Federal and State of California income taxes.

Generally accepted accounting principles provides accounting and disclosures guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments

The Organization considers its cash and cash equivalents, accounts and grants receivables, unconditional promises to give, prepaid and other current assets, accounts payable and accrued expenses to be short-term in nature, and therefore their fair values approximate their carrying values.

NOTE 3 – ACCOUNTS RECEIVABLE, NET AND CONTRACTUAL ALLOWANCES

Accounts receivable are non-interest bearing and consist of billed amounts due approximately as follows:

	2013	2012
Medicare	$ 863,682	$ 736,071
Medi-Cal	360,934	274,254
Insurers and private pay	213,476	217,329
Sub-total	1,438,092	1,227,654
Allowance for doubtful accounts	(32,000)	(32,000)
Total accounts receivable, net	$ 1,406,092	$ 1,195,654

Amounts billed to Medicare and Medi-Cal ("Payers") for hospice in-patient services are subject to an overall limitation. Total patient days charged to such payers at the General In-Patient Rate for hospice services may not exceed 20% of the total patient days for both in-patient and out-patient hospice services rendered during years ended October 31 (the "Cap Year"). Patient days billed for in-patient hospice services in excess of the 20% limitation are payable at a rate lower than the General In-Patient Rate. Amounts estimated to be refundable due to the 20% limitation for any Cap Year are deemed to be excess payments and are recorded as Contractual Allowance liabilities by the Organization. Management estimates there is no Contractual Allowance liability due to the Payers on account of patient days incurred during the years ended September 30, 2013 and 2012.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at September 30:

	2013	2012
Land	$ 805,759	$ 35,000
Buildings and improvements	2,168,534	301,188
Office and medical equipment	646,520	566,096
Furniture and fixtures	139,363	127,844
Vehicles	6,750	6,750
Construction in progress	101,038	-
	3,867,964	1,036,878
Accumulated depreciation & amortization	(919,732)	(792,300)
Property and equipment, net	$ 2,948,232	$ 244,578

Total depreciation and amortization expense was $127,432 and $94,489 at September 30, 2013 and 2012, respectively.

NOTE 5 – INVESTMENT SECURITIES

Investment securities consist of the following at September 30:

	Fair Value	
	2013	2012
Equity mutual funds	$ 917,241	$ 1,128,335
Bond mutual funds	585,356	740,098
Total investments	$ 1,502,597	$ 1,868,433

The Organization holds certain of its investment funds with the Fresno Regional Foundation ("FRF") in order to utilize the professional investment advisory services administered by FRF's Investment Committee. The Organization's investment securities are held in custodial accounts at SEI Private Trust Company. These custodial accounts are managed by SEI Investments, an independent investment management and advisory firm. The Organization's investment securities are primarily invested in bond funds and equity funds. FRF manages the investment securities in accordance with the Organization's Investment Policy. At September 30, 2013 and 2012, approximately $1,224,000 and $1,626,000, respectively, of the Organization's investment securities was managed by FRF. SEI provides insurance to protect the Organization's custodial account balances from SEI's 1) errors and omissions, an aggregate of $75,000,000 applicable to all accounts, including FRF or 2) employees' dishonesty, a total of $60,000,000 per occurrence. These custodial accounts are not insured by the Securities Investor Protection Corporation ("SIPC") or the Federal Deposit Insurance Corporation ("FDIC").

NOTE 5 – INVESTMENT SECURITIES (Continued)

The Organization had approximately $278,000 and $242,000 of investment securities and approximately $7,400 and $7,000 of its cash and cash equivalents held in custodial accounts with Charles Schwab at September 30, 2013 and 2012, respectively. These custodial accounts are managed by Portfolio Advisors, an independent investment management and advisory firm. Investment securities are primarily held in equity and fixed income funds. Charles Schwab provides insurance to protect the Organization's accounts per SIPC insurance limitations.

At September 30, 2013 and 2012, approximately $249,000 and $247,000 respectively, of the Organization's cash and cash equivalents were held in custodial accounts at RBC Wealth Management ("RBC"). These custodial accounts are managed by RBC, an independent investment management and advisory firm. The cash and cash equivalents are primarily invested in money market and certificate of deposits. RBC provides insurance to protect the Organization's custodial account balances of up to $99.5 million for SIPC qualified accounts, subject to a total maximum aggregate of $400 million.

The Organization's investment activities consist of the following at September 30:

	2013	2012
Interest and dividends	$ 47,048	$ 45,127
Unrealized gains	63,767	281,212
Realized gains (losses)	40,022	(19,687)
Investment fees	(13,078)	(18,219)
Total investment income, net	$ 137,759	$ 288,433

Investment securities are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the Organization's account balances and amounts reported in its Financial Statements.

NOTE 6 – LINE-OF-CREDIT

The Organization had a $250,000 working capital line-of-credit with United Security Bank which expired July 2013 and was replaced with a line-of-credit of the same amount at Wells Fargo Bank. During the years ended September 30, 2013 and 2012, the maximum amount drawn on the line-of-credit was $250,000 each. Interest on the line accrues at the bank's reference rate (3.75% and 3.25% at September 30, 2013 and 2012, respectively). At September 30, 2013 and 2012, there was no balance due on the line-of-credit. Total interest expense for the years ended September 30, 2013 and 2012 on balances outstanding under the line-of-credit was $365 and $2,783, respectively. The line-of-credit is secured primarily by the Organization's Accounts Receivable. The line-of-credit agreement expires February 2014.

NOTE 7 – PROFIT SHARING PLAN

The Organization provides for a Safe Harbor 401(k) plan (the "Plan") covering eligible employees who meet certain minimum service requirements. The Plan is administered through John Hancock Life Insurance Company. The Plan provides for the Organization to make discretionary and/or matching contributions to deferring employees, an amount which varies and is dependent on Board approval. The Organization made a discretionary matching contribution of approximately $82,000 in December 2013 for the year ended September 30, 2013. The payment has been accrued and included in the financial statements. A discretionary contribution of $79,000 was made during the year ended September 30, 2012.

NOTE 8 – CONTINGENCIES

Liquidity and Financial Resources

Payments received for hospice services from third party payers are not sufficient to support the Organization's present level of operations. The Organization's operating expenses are also funded, in part, by a combination of thrift store earnings, community donations, grants, loans, and income earned on cash balances and investments. The Organization received donations during the years ended September 30, 2013 and 2012 which included significant (in excess of $5,000), non-recurring contributions from individual donors or bequests in the amount of approximately $1,549,000 and $634,000, respectively.

The ability of the Organization to maintain its present level of operations is dependent upon the continuity of sufficient annual financial support from the Fresno, Madera and Merced communities.

NOTE 9 – LEASE COMMITMENTS

The Organization leases certain of its thrift stores, administrative and clinical offices. The leases are accounted for as operating leases and provide for the payment of monthly rents plus executory costs.

The Organization leases its Fresno administrative office space for $17,096 per month beginning December 2012. The monthly lease increased to $17,443 beginning December 2013. The lease will expire March 2014.

The Organization has a thrift store in Clovis and signed a new lease commitment which commenced December 2011 and expires November 2016. Monthly rent expense is $5,605 beginning October 2012.

The Organization rents on a month-to-month basis its other thrift store facilities in Madera, Sanger, Kerman and Chowchilla. The Madera thrift store's rent per month is $1,000 of which $500 is deemed a contribution from the landlord. The Sanger thrift store's rent expense is $1,500 per month. The Kerman thrift store's rent expense is $1,800, and the Chowchilla thrift store's rent expense is $1,300. In June 2013, the organization closed its Kerman thrift store.

Total Rent and Occupancy Costs for the years ended September 30, 2013 and 2012 was $381,930 and $352,119, respectively.

The Organization leases certain office equipment under capital lease obligations, which are secured by such equipment. Capitalized costs and accumulated amortization were $182,128 and $146,083 for September 30, 2013 and $173,663 and $134,331 at September 30, 2012.

NOTE 9 – LEASE COMMITMENTS (Continued)

The following table shows the Organization's future lease commitments for each of the years ended September 30:

	Capital	Operating
2014	$ 15,995	$ 153,777
2015	15,995	67,254
2016	10,607	67,254
2017	1,118	11,209
2018 and thereafter	-	-
Total payments	43,715	299,494
Less amounts representing interest	(5,704)	
Total minimum lease payments	38,011	
Amounts due within one year	(12,819)	
Long-term capital lease obligation	$ 25,192	

NOTE 10 – MORTGAGE PAYABLE

The Organization obtained a mortgage with Wells Fargo Bank in December 2012 for the purchase of a commercial building in the amount of $2,630,000. The principal amount of the mortgage was $1,972,500 with an annual percentage rate of 4.75%. Interest only payments are due monthly through January 2014. Monthly principal payments of $10,958 plus interest are to commence in February 2014 through January 2029. The mortgage payable is secured by the building. Principal payments consist of the following for years ending September 30:

2014	$ 87,667
2015	131,500
2016	131,500
2017	131,500
2018	131,500
2019 and thereafter	1,358,833
	$ 1,972,500

Total interest expense on the mortgage was $68,448 for the year ended September 30, 2013.

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at September 30:

	2013	2012
Unconditional promises to give	$ 335,873	$ 82,722
Grants:		
Susan G. Komen Foundation	17,500	22,801
Various matching grants	350	150
Total temporarily restricted net assets	$ 353,723	$ 105,673

NOTE 12 – THRIFT STORES, NET

Thrift stores activities consist of the following at September 30:

	2013	2012
Thift stores revenue:	$ 833,511	$ 729,001
Costs and expenses:		
Advertising and promotion	4,062	9,243
Bank and payroll fees	11,068	11,364
CAM charges	-	1,993
Communication / telephone	7,427	8,149
Depreciation	4,210	7,849
Education	-	459
Employee benefits	59,553	71,552
Office supplies	8,082	1,433
Other	27,153	18,478
Payroll taxes	22,850	17,613
Recycle expense	28,560	19,704
Rent and cccupancy	131,354	115,982
Salaries	270,755	196,370
Security and alarm services	1,752	2,832
Storage rental	10,907	8,155
Travel and transportation	24,754	14,598
Utilities	50,525	25,914
Total costs and expenses	663,012	531,688
Income from thrift stores, net	$ 170,499	$ 197,313

NOTE 13 – FAIR VALUE MEASUREMENTS

In accordance with generally accepted accounting principles, fair value is defined as the price that the Organization would receive upon selling an asset or pay to transfer a liability at the reporting date. Generally accepted accounting principles established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are those that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the asset or liability, developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, and fair value is determined through the use of other valuation methodologies

Level 3 – Valuations based on inputs that are not observable and significant to the overall fair value measurement, including the Organization's own assumptions in determining the fair value of assets or liabilities

NOTE 13 – FAIR VALUE MEASUREMENTS (Continued)

The following is a summary of the inputs used as of September 30 in valuing the Organization's assets carried at fair value:

Asset Description	Level 1	Level 2	Level 3	Total
2013 Investment securities:				
Equity securities	$ 182,516	$ 734,725	$ -	$ 917,241
Bond mutual funds	95,539	489,817	-	585,356
Total investment securities	$ 278,055	$ 1,224,542	$ -	$ 1,502,597
2012 Investment securities:				
Equity securities	$ 152,716	$ 975,619	$ -	$ 1,128,335
Bond mutual funds	89,686	650,412	-	740,098
Total investment securities	$ 242,402	$ 1,626,031	$ -	$ 1,868,433

The following methods and assumptions were used by the Organization in estimating the fair value of other financial instruments:

Certificates of Deposit and Investment Securities – All of the Organization's Certificates of Deposit and Investment Securities are available-for-sale, and are stated at their fair value based on quoted closing prices.

As of September 30, 2013 and 2012, the fair value of the Organization's investments in available-for-sale Level 2 funds was $1,224,542 and $1,626,031, respectively. These investments are managed by the Fresno Regional Foundation and invested in various asset pools. To estimate the investment securities balance between equity and bond mutual funds, the Organization allocated the funds in accordance with its investment policy.

NOTE 14 – SUBSEQUENT EVENT

During December 2013, the Organization received a $1,000,000 donation from the Red and Nancy Arnold Foundation. This donation is restricted to provide services to patients and their families in Madera County, California.

Management has evaluated and concluded that there are no other subsequent events that have occurred from September 30, 2013 through the date the financial statements were available to be issued at January 17, 2014 that would require additional disclosure or adjustment.