Hinds Hospice

Honoring the Journey

SINCE 1981

CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2016 AND 2015

HINDS HOSPICE
FRESNO, CALIFORNIA

SEPTEMBER 30, 2016 AND 2015

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PRICE PAIGE & COMPANY
Accountancy Corporation

The Place to Be

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hinds Hospice
Fresno, California

We have audited the accompanying consolidated financial statements of Hinds Hospice (the "Organization"), which comprise the consolidated statement of financial position as of September 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 consolidated 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, 2016, and the changes in its net assets and its cash flows for the year 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 2015 financial statements, and our report dated February 8, 2016, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Price Paige & Company

Clovis, California
January 20, 2017

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,036,764	$ 1,007,363
Accounts receivable, net	2,199,933	1,980,180
Grants and other receivable	-	22,149
Unconditional promises to give	52,652	92,287
Medical supplies inventory	32,963	37,076
Prepaid and other current assets	130,399	68,811
Total current assets	3,452,711	3,207,866
Property and equipment, net	4,604,767	4,469,289
Investment securities	3,647,903	3,062,655
Other assets	104,962	84,754
Total assets	$ 11,810,343	$ 10,824,564
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 456,018	$ 534,573
Accrued expenses	906,504	1,012,348
Deposits	-	16,367
Capital lease obligations, currrent portion	9,840	12,676
Mortgages payable, current portion	177,500	177,500
Total current liabilities	1,549,862	1,753,464
Capital lease obligations	25,287	3,634
Mortgages payable	1,937,173	2,114,673
Total liabilities	3,512,322	3,871,771
Net assets:		
Unrestricted	7,219,274	5,798,257
Temporarily restricted	1,078,747	1,154,536
Total net assets	8,298,021	6,952,793
Total liabilities and net assets	$ 11,810,343	$ 10,824,564

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(With Summarized Financial Information for 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
Revenues and support:				
Patient revenues, net	$ 15,517,177	$ -	$ 15,517,177	$ 13,469,350
Donations, memorials and grants	926,685	20,917	947,602	835,089
Special events and activities	980,614	-	980,614	1,060,972
Thrift stores, net	153,163	-	153,163	157,567
Rental income	189,918	-	189,918	358,052
Other operating revenue	123,938	-	123,938	117,768
Investment income (loss), net	268,028	(9,505)	258,523	(67,808)
Total revenues and support before net assets released from restrictions	18,159,523	11,412	18,170,935	15,930,990
Net assets released from restrictions	87,201	(87,201)	-	-
Total revenues and support after reclassification of net assets released from restrictions	18,246,724	(75,789)	18,170,935	15,930,990
Costs and expenses:				
Program services	14,832,261	-	14,832,261	13,290,310
General and administrative	717,143	-	717,143	524,065
Fundraising	820,240	-	820,240	692,508
Hospice Charitable Properties, Inc.	456,063	-	456,063	477,667
Total costs and expenses	16,825,707	-	16,825,707	14,984,550
Changes in net assets	1,421,017	(75,789)	1,345,228	946,440
Net assets, beginning of year	5,798,257	1,154,536	6,952,793	6,006,353
Net assets, end of year	$ 7,219,274	$ 1,078,747	$ 8,298,021	$ 6,952,793

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(With Summarized Financial Information for 2015)

		Supporting Services			2016	2015
	Program Services	General and Administrative	Fundraising	HCPI Expenses	Total Expenses	Total Expenses
Personnel costs:						
Salaries	$ 8,975,029	$ 445,271	$ 401,001	$ -	$ 9,821,301	$ 8,640,002
Payroll taxes	681,993	33,835	30,471	-	746,299	660,774
Employee benefits	1,149,113	57,010	51,342	-	1,257,465	1,268,449
Total personnel costs	10,806,135	536,116	482,814	-	11,825,065	10,569,225
Other costs and expenses:						
Advertising and promotion	12,222	1,850	2,367	-	16,439	23,262
Bad debts	65,192	-	-	-	65,192	93,681
Bank and payroll fees	17,861	6,414	6,760	70	31,105	31,724
Communication / telephone	116,660	5,194	4,788	-	126,642	139,468
Dues and subscriptions	33,169	10,707	3,262	-	47,138	34,053
Education	49,186	13,717	8,468	-	71,371	44,078
Equipment rental	641,048	45	-	-	641,093	563,728
Food	19,822	663	442	-	20,927	14,686
Information systems	62,801	7,854	17,114	-	87,769	84,389
Insurance	85,115	4,223	3,803	22,683	115,824	181,130
Interest	998	138	781	110,714	112,631	122,373
Legal and accounting fees	62,057	19,959	3,232	139	85,387	88,092
Maintenance and repairs	7,741	302	43	85,064	93,150	84,492
Medical supplies / pharmacy	888,003	-	-	-	888,003	788,104
Office supplies	51,943	9,405	8,865	-	70,213	62,588
Other fundraising and gala event	-	-	152,469	-	152,469	143,797
Postage and shipping	13,460	2,435	12,015	-	27,910	29,371
Printing	43,074	4,104	38,024	-	85,202	98,444
Professional services	811,301	47,197	42,175	-	900,673	530,261
Purchased services, clinical	207,417	-	-	-	207,417	223,244
Rent and occupancy	61,550	-	-	-	61,550	56,440
Taxes and licenses	6,912	582	395	42,596	50,485	7,837
Travel and transportation	573,368	7,070	3,674	-	584,112	508,842
Utilities	19,269	-	-	94,766	114,035	144,663
Other	59,958	11,492	10,340	1,504	83,294	86,725
Total other costs and expenses	3,910,127	153,351	319,017	357,536	4,740,031	4,185,472
Subtotal	14,716,262	689,467	801,831	357,536	16,565,096	14,754,697
Depreciation and amortization	115,999	27,676	18,409	98,527	260,611	229,853
Total costs and expenses	$ 14,832,261	$ 717,143	$ 820,240	$ 456,063	$ 16,825,707	$ 14,984,550

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Changes in net assets	$ 1,345,228	$ 946,440
Adjustments to reconcile changes in net assets to		
Net cash provided by (used in) operating activities:		
Depreciation and amortization	263,071	232,699
Bad debts	65,192	93,681
Donated securities	(8,738)	(1,000)
Unrealized (gains) losses	(76,847)	193,506
(Gain) loss on sale of assets	(1,214)	-
Changes in operating assets and liabilities:		
Accounts and grants receivable	(262,796)	(523,588)
Unconditional promises to give	39,635	(39,911)
Medical supplies inventory	4,113	14,749
Prepaid and other current assets	(61,588)	(15,278)
Other assets	(20,208)	(2,512)
Accounts payable	(78,555)	27,489
Accrued expenses	(105,844)	(25,986)
Deposits	(16,367)	-
Net cash provided by (used in) operating activities	1,085,082	900,289
Cash flows from investing activities:		
Purchase of building and equipment	(371,468)	(463,260)
Proceeds from sale of assets	7,524	-
Investment sales proceeds	34,933	50,594
Investment purchases	(534,596)	(442,027)
Net cash provided by (used in) investing activities	(863,607)	(854,693)
Cash flows from financing activities:		
Principal payments on long-term debt	(177,500)	(177,500)
Advances on the line-of-credit	420,691	814,464
Principal payments on line-of-credit	(420,691)	(814,464)
Principal payments on capital lease obligations	(14,574)	(15,667)
Net cash provided by (used in) financing activities	(192,074)	(193,167)
Increase (decrease) in cash and cash equivalents	29,401	(147,571)
Cash and cash equivalents, beginning of year	1,007,363	1,154,934
Cash and cash equivalents, end of year	$ 1,036,764	$ 1,007,363
Supplemental disclosures of cash flow information:		
Interest paid	$ 112,631	$ 122,373
Noncash investing and financing activities:		
Capitalized lease equipment	$ 33,391	$ -

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

NOTE 1 – ORGANIZATION AND OPERATIONS

Hinds Hospice (the "Organization") is a California not-for-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 services to hospice certified patients on an out-patient basis in Fresno, Madera and Merced counties. The Organization also currently operates three thrift stores located in Chowchilla, Clovis and Madera. 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 and administrative and clinical offices. Thrift store facilities utilize leased premises.

Hospice Charitable Properties, Inc., ("HCPI") is a wholly owned subsidiary of the Organization. It is a title holding corporation pursuant to Internal Revenue Code Section 501(c)(2). HCPI was established to hold title to commercial property and manage the rental activities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Hinds Hospice and HCPI (collectively referred to as the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

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, 2016 and 2015, 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, 2015, 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.

The Organization maintains cash balances in bank accounts with various financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). At September 30, 2016 and 2015, the Organization had uninsured cash balances of $792,292 and $715,497, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2016 and 2015 were $65,192 and $93,681, 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 method over the following estimated useful lives:

Buildings and improvements	5 to 39 Years
Office and medical equipment	5 Years
Furniture, fixtures and office equipment	2 to 5 Years
Vehicles	3 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, 2016 and 2015.

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, 2016 and 2015, the Organization's standard rates for patient services were $4,066,891 and $1,300,641, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 $43,048 and $17,207, respectively, for the year ended September 30, 2016, and $37,222 and $14,432, respectively, for the year ended September 30, 2015.

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

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, 2016 and 2015 were $52,652 and $92,287, 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. Donations or grants received and expended in the same fiscal year are recorded as Unrestricted Net Assets. Net Assets Released from Restrictions during the years ended September 30, 2016 and 2015 were $87,201 and $17,541, 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 Consolidated 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016 and 2015, the Organization received and recognized $38,738 and $59,680, 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, 2016 and 2015, the Organization received $17,840 and $23,333, 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, 2016 and 2015 were $20,604 and $28,008, respectively.

Reclassifications

Certain reclassifications were made to the 2015 financial statements in order to conform to the presentation shown. These reclassifications had no effect on the Organization's net assets as of September 30, 2015.

Taxes

The Organization has qualified as a not-for-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:

	2016	2015
Medicare	$ 1,164,321	$ 1,139,266
Medi-Cal	687,747	610,526
Insurers and private pay	400,025	248,339
Other patient receivables	4,770	14,049
Subtotal	2,256,863	2,012,180
Allowance for doubtful accounts	(56,930)	(32,000)
Total accounts receivable, net	$ 2,199,933	$ 1,980,180

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, 2016 and 2015.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at September 30:

	2016	2015
Land	$ 805,759	$ 805,759
Buildings and improvements	3,905,845	3,664,137
Office and medical equipment	937,501	821,792
Furniture and fixtures	327,686	323,812
Vehicles	6,750	6,750
Construction in progress	17,678	3,500
	6,001,219	5,625,750
Accumulated depreciation and amortization	(1,396,452)	(1,156,461)
Property and equipment, net	$ 4,604,767	$ 4,469,289

Total depreciation and amortization expenses were $263,071 and $232,699 at September 30, 2016 and 2015, respectively.

NOTE 5 – INVESTMENT SECURITIES

Investment securities consist of the following at September 30:

	Fair Value 2016	Fair Value 2015
Bond and equity funds	$ 341,134	$ 303,905
Central Valley Community Foundation investment pool	3,306,769	2,758,750
Total investment securities	$ 3,647,903	$ 3,062,655

The Organization holds certain of its investment funds with the Central Valley Community Foundation ("CVCF") in order to utilize the professional investment advisory services administered by CVCF'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. CVCF manages the investment securities in accordance with the Organization's Investment Policy.

At September 30, 2016 and 2015, $3,306,769 and $2,758,750, respectively, of the Organization's investment securities was managed by CVCF. 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 CVCF 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").

The Organization had $341,134 and $303,905 of investment securities and $10,193 and $10,410 of its cash and cash equivalents held in custodial accounts with Charles Schwab at September 30, 2016 and 2015, 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.

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

	2016	2015
Interest and dividends	$ 212,480	$ 152,972
Unrealized gains (losses)	76,848	(198,531)
Realized gains	3,947	10,427
Investment fees	(34,752)	(32,676)
Total investment income (loss), net	$ 258,523	$ (67,808)

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 has a $1,000,000 working capital line-of-credit with Wells Fargo Bank. During the years ended September 30, 2016 and 2015, the maximum amounts drawn on the line-of-credit were $250,000 and $213,863, respectively. Interest on the line accrues at the bank's reference rate (4.00% and 3.75% at September 30, 2016 and 2015, respectively). At September 30, 2016 and 2015, there were no balances due on the line-of-credit. Total interest expenses for the years ended September 30, 2016 and 2015 on balances outstanding under the line-of-credit were $142 and $663, respectively. The line-of-credit is secured by the Organization's commercial building. The line-of-credit agreement has been renewed through July 2017 with substantially similar terms.

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 plans on making a discretionary matching contribution of $132,185 in the first quarter of 2017 for the year ended September 30, 2016. The amount has been accrued and included in the financial statements. A discretionary contribution of $96,900 was made for the year ended September 30, 2015.

NOTE 8 – 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, 2016 and 2015 which included significant (in excess of $5,000), non-recurring contributions from individual donors or bequests in the amount of $1,148,543 and $1,099,274, 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.

Total rent and occupancy costs for the years ended September 30, 2016 and 2015 were $194,008 and $182,017, respectively.

The Organization leases certain office equipment under capital lease obligations, which are secured by such equipment. Capitalized costs and accumulated amortization were $194,106 and $159,665 for September 30, 2016, and $160,715 and $131,019 at September 30, 2015.

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
2017	$ 11,361	$ 193,209
2018	9,899	213,640
2019	8,175	217,908
2020	4,866	222,268
2021 and thereafter	3,975	631,711
Total payments	38,276	$ 1,478,736
Less amounts representing interest	(3,149)	
Total minimum lease payments	35,127	
Amounts due within one year	(9,840)	
Long-term capital lease obligation	$ 25,287	

NOTE 10 – MORTGAGES PAYABLE

The Organization has a mortgage loan with Wells Fargo Bank secured by its commercial building. The annual percentage rate is 4.75%. Monthly principal payments of $10,958 plus interest are scheduled through January 2029. The loan has a principal balance of $1,621,833 and $1,753,333 at September 30, 2016 and 2015, respectively.

The Organization also has a building improvement loan with Wells Fargo. The loan has a principal balance of $492,840 and $538,840 at September 30, 2016 and 2015, respectively, with an annual percentage rate of 5.50%. Monthly principal payments of $3,833 plus interest are scheduled through June 2027. This loan is also secured by the building.

Principal payments consist of the following for years ending September 30:

2017	$ 177,500
2018	177,500
2019	177,500
2020	177,500
2021	177,500
2022 and thereafter	1,227,173
	$ 2,114,673

Total interest expense on the mortgage and construction loan was $110,714 and $119,309 for the years ended September 30, 2016 and 2015, respectively.

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Unconditional Promises to Give	$ 52,652	$ 92,487
Arnold and Nancy Red Foundation	1,010,544	1,020,049
Others	15,551	42,000
Total temporarily restricted net assets	$ 1,078,747	$ 1,154,536

NOTE 12 – THRIFT STORES, NET

Thrift stores activities consist of the following at September 30:

	2016	2015
Thift stores revenue:	$ 861,123	$ 768,967
Costs and expenses:		
Advertising and promotion	4,165	4,746
Bank and payroll fees	9,332	7,274
Communication / telephone	11,836	10,596
Depreciation	2,460	2,846
Education	-	70
Employee benefits	49,317	57,659
Maintenance and repairs	3,568	-
Office supplies	7,979	4,358
Payroll taxes	25,889	22,881
Recycle expense	1,181	503
Rent and occcupancy	132,459	125,577
Salaries	327,711	273,542
Security and alarm services	17,120	13,669
Travel and transportation	38,014	20,593
Utilities	49,960	48,478
Other	26,969	18,608
Total costs and expenses	707,960	611,400
Thrift store, net	$ 153,163	$ 157,567

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.

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
2016:				
Bond and equity funds	$ 341,134	$ -	$ -	$ 341,134
Central Valley Community Foundation investment pool	-	3,306,769	-	3,306,769
Total investment securities	$ 341,134	$ 3,306,769	$ -	$ 3,647,903
2015:				
Bond and equity funds	$ 303,905	$ -	$ -	$ 303,905
Central Valley Community Foundation investment pool	-	2,758,750	-	2,758,750
Total investment securities	$ 303,905	$ 2,758,750	$ -	$ 3,062,655

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

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, 2016 and 2015, the fair value of the Organization's investments in available-for-sale Level 2 funds was $3,306,769 and $2,758,750, respectively. These investments are managed by the Central Valley Community Foundation and invested in various asset pools.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated and concluded that there are no other subsequent events that have occurred from September 30, 2016 through the date the financial statements were available to be issued at January 20, 2017 that would require additional disclosure or adjustment.