Hinds Hospice
Honoring the Journey

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

HINDS HOSPICE
FRESNO, CALIFORNIA

SEPTEMBER 30, 2017 AND 2016

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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 and subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated 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 and subsidiary as of September 30, 2017, and the changes in their net assets and their 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 2016 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated January 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Price Paige & Company

Clovis, California
December 13, 2017

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,202,789	$ 1,036,764
Accounts receivable, net	2,073,704	2,199,933
Prepaid and other current assets	222,870	216,014
Total current assets	3,499,363	3,452,711
Property and equipment, net	4,677,140	4,604,767
Investment securities	4,203,826	3,647,903
Other assets	703,642	104,962
Total assets	$ 13,083,971	$ 11,810,343
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,597,548	$ 1,362,522
Capital lease obligations, current portion	13,509	9,840
Long-term debt, current portion	177,500	177,500
Total current liabilities	1,788,557	1,549,862
Capital lease obligations	41,581	25,287
Long-term debt	1,759,674	1,937,173
Total liabilities	3,589,812	3,512,322
Net assets:		
Unrestricted	8,294,971	7,219,274
Temporarily restricted	1,199,188	1,078,747
Total net assets	9,494,159	8,298,021
Total liabilities and net assets	$ 13,083,971	$ 11,810,343

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

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(With Summarized Financial Information for 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
Revenues and support:				
Patient revenues	$ 15,532,858	$ -	$ 15,532,858	$ 15,517,177
Donations, memorials and grants	2,119,327	39,620	2,158,947	1,545,613
Special events, net	285,038	-	285,038	272,943
Thrift stores, net	1,468	-	1,468	153,163
Rental income	186,816	-	186,816	189,918
Other operating revenue	112,777	-	112,777	123,938
Investment income, net	352,169	97,372	449,541	258,523
Total revenues and support before net assets released from restrictions	18,590,453	136,992	18,727,445	18,061,275
Net assets released from restrictions	16,551	(16,551)	-	-
Total revenues and support after reclassification of net assets released from restrictions	18,607,004	120,441	18,727,445	18,061,275
Costs and expenses:				
Program services	15,408,467	-	15,408,467	14,832,260
General and administrative	1,076,909	-	1,076,909	717,143
Fundraising	586,086	-	586,086	710,581
Hospice Charitable Properties, Inc.	459,845	-	459,845	456,063
Total costs and expenses	17,531,307	-	17,531,307	16,716,047
Changes in net assets	1,075,697	120,441	1,196,138	1,345,228
Net assets, beginning of year	7,219,274	1,078,747	8,298,021	6,952,793
Net assets, end of year	$ 8,294,971	$ 1,199,188	$ 9,494,159	$ 8,298,021

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(With Summarized Financial Information for 2016)

		Supporting Services				
	Program Services	General and Administrative	Fundraising	HCPI Expenses	2017 Total Expenses	2016 Total Expenses
Personnel Costs:						
Salaries and wages	$ 8,934,108	$ 639,470	$ 365,696	$ -	$ 9,939,274	$ 9,821,301
Employee benefits	1,967,407	140,820	80,531	-	2,188,758	2,003,765
Contract labor	378,369	26,744	19,476	-	424,589	313,989
Total personnel costs	11,279,884	807,034	465,703	-	12,552,621	12,139,055
Other Costs and Expenses:						
Bad debts	144,899	-	-	-	144,899	65,192
Telephone communications	135,065	14,751	7,070	-	156,886	126,641
Dues and subscriptions	63,401	13,511	3,323	-	80,235	74,165
Education	67,173	18,209	3,494	-	88,876	71,371
Equipment rental	653,532	1,600	234	-	655,366	663,375
Information systems	123,324	28,052	17,178	-	168,554	87,769
Insurance	79,150	5,663	3,268	4,481	92,562	115,824
Interest	2,402	666	632	101,512	105,212	112,631
Maintenance and repairs	16,157	804	126	102,470	119,557	92,961
Pharmacy	826,984	-	-	-	826,984	880,621
Medical supplies	290,681	-	-	-	290,681	246,192
Office	134,777	30,367	36,787	948	202,879	211,561
Professional services	268,905	92,692	17,414	35	379,046	336,779
Purchased clinical services	459,890	-	-	-	459,890	322,441
Occupancy expense	99,587	1,339	170	105,653	206,749	175,583
Transportation	570,944	11,409	7,329	-	589,682	522,356
Other	72,686	22,677	15,889	37,109	148,361	210,921
Total other costs and expenses	4,009,557	241,740	112,914	352,208	4,716,419	4,316,383
Subtotal	15,289,441	1,048,774	578,617	352,208	17,269,040	16,455,438
Depreciation	119,026	28,135	7,469	107,637	262,267	260,611
Total costs and expenses	$ 15,408,467	$ 1,076,909	$ 586,086	$ 459,845	$ 17,531,307	$ 16,716,049

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

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Changes in net assets	$ 1,196,138	$ 1,345,228
Adjustments to reconcile changes in net assets to		
Net cash provided by (used in) operating activities:		
Depreciation	274,379	263,071
Bad debts	144,899	65,192
Donated securities	(5,208)	(8,738)
Unrealized gains	(126,256)	(76,847)
Gain on sale of assets	(677)	(1,214)
Changes in operating assets and liabilities:		
Accounts receivable	(18,670)	(223,161)
Prepaid and other current assets	(6,856)	(57,475)
Other assets	(598,680)	(20,208)
Accounts payable and accrued liabilities	235,026	(200,766)
Net cash provided by (used in) operating activities	1,094,095	1,085,082
Cash flows from investing activities:		
Purchase of building and equipment	(315,019)	(371,468)
Proceeds from sale of assets	3,272	7,524
Investment sales proceeds	51,024	34,933
Investment purchases	(475,483)	(534,596)
Net cash provided by (used in) investing activities	(736,206)	(863,607)
Cash flows from financing activities:		
Principal payments on long-term debt	(177,499)	(177,500)
Advances on the line-of-credit	700,000	420,691
Principal payments on line-of-credit	(700,000)	(420,691)
Principal payments on capital lease obligations	(14,365)	(14,574)
Net cash provided by (used in) financing activities	(191,864)	(192,074)
Increase (decrease) in cash and cash equivalents	166,025	29,401
Cash and cash equivalents, beginning of year	1,036,764	1,007,363
Cash and cash equivalents, end of year	$ 1,202,789	$ 1,036,764
Supplemental disclosures of cash flow information:		
Interest paid	$ 105,212	$ 112,631
Noncash investing and financing activities:		
Capitalized lease equipment	$ 34,328	$ 33,391

NOTE 1 – ORGANIZATION AND OPERATIONS

Hinds Hospice 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.

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, 2017 and 2016, 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, 2016, 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, 2017 and 2016, the Organization had uninsured cash balances of $996,040 and $792,292, 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 noncurrent.

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, 2017 and 2016 were $144,899 and $65,192, 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, 2017 and 2016.

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, 2017 and 2016, the Organization's standard rates for patient services were $8,522,959 and $4,066,891, 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)

Revenue Recognition (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 $39,161 and $23,429, respectively, for the year ended September 30, 2017, and $43,048 and $17,207, respectively, for the year ended September 30, 2016.

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, 2017 and 2016 were $62,758 and $52,652, 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, 2017 and 2016 were $16,551 and $87,201, 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.

Functional Allocation of Expenses

The costs of providing the Organization's hospice 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, 2017 and 2016, the Organization received and recognized $27,996 and $38,738, 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 significantly enhance non-financial assets or involve a professional service that would otherwise have been purchased and whose values can be objectively measured. For the years ended September 30, 2017 and 2016, the Organization received $9,798 and $17,840, respectively, in donated services related to its fundraising events.

During fiscal year 2017, the Organization accepted a bequest of beneficial interest shares in Wer-Stan Associates, a California limited partnership. The shares are non-voting and are expected to provide the Organization earnings from rental income derived from commercial real estate holdings in the Greater Fresno Area. The recorded value of the gift was $605,984 and has been included in other assets in the Consolidated Statement of Financial Position.

Advertising and Promotion

The Organization expenses all advertising and promotion costs as incurred. Total advertising and promotion expenses at September 30, 2017 and 2016 were $24,740 and $20,604, respectively.

Reclassifications

Certain reclassifications were made to the 2016 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, 2016.

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 provide 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

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 that there are no contractual allowance liabilities due to the Payers on account of patient days incurred during the years ended September 30, 2017 and 2016.

Accounts receivable consist of the following at September 30:

	2017	2016
Medicare	$ 1,141,261	$ 1,164,322
Medi-Cal	550,871	687,747
Insurers and private pay	433,530	400,024
Other patient receivables	6,613	4,770
Subtotal	2,132,275	2,256,863
Allowance for doubtful accounts	(58,571)	(56,930)
Total accounts receivable, net	$ 2,073,704	$ 2,199,933

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at September 30:

	2017	2016
Land	$ 805,759	$ 805,759
Buildings and improvements	3,986,074	3,905,845
Office and medical equipment	1,072,882	937,501
Furniture and fixtures	380,344	327,686
Vehicles	59,830	6,750
Construction in progress	-	17,678
	6,304,889	6,001,219
Accumulated depreciation and amortization	(1,627,749)	(1,396,452)
Property and equipment, net	$ 4,677,140	$ 4,604,767

Total depreciation expense were $274,379 and $263,071 at September 30, 2017 and 2016, respectively.

NOTE 5 – INVESTMENT SECURITIES

Investment securities consist of the following at September 30:

	Fair Value	
	2017	2016
Bond and equity funds	$ 379,700	$ 341,134
Central Valley Community Foundation investment pool	3,824,126	3,306,769
Total investment securities	$ 4,203,826	$ 3,647,903

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, 2017 and 2016, $3,824,126 and $3,306,769, respectively, of the Organization's investment securities were 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 $379,700 and $341,134 of investment securities, and $15,690 and $10,193 of its cash and cash equivalents held in custodial accounts with Charles Schwab at September 30, 2017 and 2016, 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:

	2017	2016
Interest and dividends	$ 129,365	$ 212,480
Unrealized gains	126,256	76,848
Realized gains	234,564	3,947
Investment fees	(40,644)	(34,752)
Total investment income, net	$ 449,541	$ 258,523

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, 2017 and 2016, the maximum amounts drawn on the line-of-credit were $700,000 and $250,000, respectively. Interest on the line accrues at the bank's reference rate (4.75% and 4.00% at September 30, 2017 and 2016, respectively). At September 30, 2017 and 2016, there were no balances due on the line-of-credit. Total interest expenses for the years ended September 30, 2017 and 2016 on balances outstanding under the line-of-credit were $343 and $142, respectively. The line-of-credit is secured by the Organization's commercial building. The line-of-credit agreement has been renewed through July 2018 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 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 $132,113 in the first quarter of 2018 for the year ended September 30, 2017. The amount has been accrued and included in the financial statements. A discretionary contribution of $132,185 was made for the year ended September 30, 2016.

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, 2017 and 2016 which included significant (in excess of $5,000), non-recurring cash contributions from individual donors or bequests in the amount of $1,098,235 and $1,148,543, 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 has operating lease agreements for its thrift stores and administrative and clinical offices. The leases are accounted for as operating leases and provide for the payment of monthly rents plus executory costs.

Total rental expense for the years ended September 30, 2017 and 2016 was $271,629 and $168,263, respectively.

The Organization leases certain office equipment under capital lease obligations, which are secured by such equipment. Capitalized costs and accumulated depreciation were $226,191 and $170,387 for September 30, 2017, and $194,106 and $159,665 at September 30, 2016.

NOTE 9 – LEASE COMMITMENTS (Continued)

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

	Capital	Operating
2018	$ 17,638	$ 213,640
2019	15,914	217,908
2020	13,780	222,268
2021	13,069	226,722
2022 and thereafter	5,048	404,989
Total payments	65,449	$ 1,285,527
Less amounts representing interest	(10,359)	
Total minimum lease payments	55,090	
Amounts due within one year	(13,509)	
Long-term capital lease obligation	$ 41,581	

NOTE 10 – LONG-TERM DEBT

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 $1,490,334 and $1,621,833 at September 30, 2017 and 2016, respectively.

The Organization also has a building improvement loan with Wells Fargo. The loan has a principal balance of $446,840 and $492,840 at September 30, 2017 and 2016, 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:

2018	$ 177,500
2019	177,500
2020	177,500
2021	177,500
2022	177,500
2023 and thereafter	1,049,674
	$ 1,937,174

Total interest expense on the mortgage and construction loan was $101,512 and $110,714 for the years ended September 30, 2017 and 2016, respectively.

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Unconditional promises to give	$ 62,758	$ 52,652
Arnold and Nancy Red Foundation	1,107,916	1,010,544
Others	28,514	15,551
Total temporarily restricted net assets	$ 1,199,188	$ 1,078,747

NOTE 12 – THRIFT STORES, NET

Thrift stores activities consist of the following at September 30:

	2017	2016
Thift stores revenue	$ 867,220	$ 861,123
Costs and expenses:		
Salaries and wages	335,426	327,711
Employee benefits	75,174	75,206
Depreciation	12,112	2,460
Education	149	-
Maintenance and repairs	13,416	3,568
Occupancy expense	305,872	199,539
Office	14,275	7,979
Professional services	12,128	-
Telephone communications	15,354	11,836
Transportation	39,756	38,014
Other	42,090	41,647
Total costs and expenses	865,752	707,960
Thrift store, net	$ 1,468	$ 153,163

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
2017:				
Bond and equity funds	$ 379,700	$ -	$ -	$ 379,700
Central Valley Community Foundation investment pool	-	3,824,126	-	3,824,126
Total investment securities	$ 379,700	$ 3,824,126	$ -	$ 4,203,826
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

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, 2017 and 2016, the fair value of the Organization's investments in available-for-sale Level 2 funds was $3,824,126 and $3,306,769, 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, 2017 through the date the financial statements were available to be issued at December 13, 2017 that would require additional disclosure or adjustment.