Hinds Hospice
Since 1981
Honoring the Journey

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

HINDS HOSPICE
FRESNO, CALIFORNIA

SEPTEMBER 30, 2018 AND 2017

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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, 2018, 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.

677 Scott Avenue
Clovis, CA 93612
tel 559.299.9540
fax 559.299.2344
www.ppcpas.com

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, 2018, 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 2017 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Price Paige & Company

Clovis, California
December 18, 2018

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 777,912	$ 1,202,789
Accounts receivable, net	2,912,167	2,073,704
Prepaid and other current assets	228,051	222,870
Total current assets	3,918,130	3,499,363
Property and equipment, net	4,562,378	4,677,140
Investment securities	4,536,167	4,203,826
Other assets	708,466	703,642
Total assets	$ 13,725,141	$ 13,083,971
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,726,888	$ 1,597,548
Capital lease obligations, current portion	12,879	13,509
Long-term debt, current portion	74,185	177,500
Total current liabilities	1,813,952	1,788,557
Capital lease obligations	28,666	41,581
Long-term debt	1,715,815	1,759,674
Total liabilities	3,558,433	3,589,812
Net assets:		
Unrestricted	8,836,125	8,294,971
Temporarily restricted	1,330,583	1,199,188
Total net assets	10,166,708	9,494,159
Total liabilities and net assets	$ 13,725,141	$ 13,083,971

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(With Summarized Financial Information for 2017)

	Unrestricted	Temporarily Restricted	2018 Total	2017 Total
Revenues and support:				
Patient revenues	$ 16,814,823	$ -	$ 16,814,823	$ 15,532,858
Donations, memorials and grants	1,397,828	127,806	1,525,634	2,158,947
Special events, net	256,189	-	256,189	285,038
Thrift stores, net	142,960	-	142,960	1,468
Rental income	203,415	-	203,415	186,816
Other operating revenue	122,844	-	122,844	112,777
Investment income, net	200,518	46,388	246,906	449,541
Total revenues and support before net assets released from restrictions	19,138,577	174,194	19,312,771	18,727,445
Net assets released from restrictions	42,799	(42,799)	-	-
Total revenues and support after reclassification of net assets released from restrictions	19,181,376	131,395	19,312,771	18,727,445
Costs and expenses:				
Program services	16,450,102	-	16,450,102	15,408,467
General and administrative	1,127,547	-	1,127,547	1,076,909
Fundraising	576,908	-	576,908	586,086
Hospice Charitable Properties, Inc.	485,665	-	485,665	459,845
Total costs and expenses	18,640,222	-	18,640,222	17,531,307
Changes in net assets	541,154	131,395	672,549	1,196,138
Net assets, beginning of year	8,294,971	1,199,188	9,494,159	8,298,021
Net assets, end of year	$ 8,836,125	$ 1,330,583	$ 10,166,708	$ 9,494,159

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(With Summarized Financial Information for 2017)

		Supporting Services				
	Program Services	General and Administrative	Fundraising	HCPI Expenses	2018 Total Expenses	2017 Total Expenses
Personnel Costs:						
Salaries and wages	$ 9,490,844	$ 653,981	$ 370,912	$ -	$ 10,515,737	$ 9,939,274
Employee benefits	2,006,459	138,258	78,415	-	2,223,132	2,188,758
Contract labor	574,672	46,377	16,825	-	637,874	424,589
Total personnel costs	12,071,975	838,616	466,152	-	13,376,743	12,552,621
Other Costs and Expenses:						
Bad debts	156,564	-	-	-	156,564	144,899
Telephone communications	157,004	12,885	6,532	-	176,421	156,886
Dues and subscriptions	46,347	16,383	5,597	12	68,339	80,235
Education	69,259	10,366	2,966	-	82,591	88,876
Equipment rental	614,969	1,699	544	-	617,212	655,366
Information systems	159,043	34,992	15,919	-	209,954	168,554
Insurance	81,638	5,671	3,152	5,938	96,399	92,562
Interest	983	228	149	95,495	96,855	105,212
Maintenance and repairs	12,460	533	76	100,636	113,705	119,557
Pharmacy	776,506	-	-	-	776,506	826,984
Medical supplies	289,039	-	-	-	289,039	290,681
Office	157,547	22,916	26,099	4,536	211,098	202,879
Professional services	350,276	103,140	22,653	11,117	487,186	379,046
Purchased clinical services	578,026	-	-	-	578,026	459,890
Occupancy expense	87,201	4,956	619	108,389	201,165	206,749
Transportation	646,962	11,796	3,678	-	662,436	589,682
Other	77,281	26,233	11,191	43,689	158,394	148,361
Total other costs and expenses	4,261,105	251,798	99,175	369,812	4,981,890	4,716,419
Subtotal	16,333,080	1,090,414	565,327	369,812	18,358,633	17,269,040
Depreciation	117,022	37,133	11,581	115,853	281,589	262,267
Total costs and expenses	$ 16,450,102	$ 1,127,547	$ 576,908	$ 485,665	$ 18,640,222	$ 17,531,307

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Changes in net assets	$ 672,549	$ 1,196,138
Adjustments to reconcile changes in net assets to		
Net cash provided by (used in) operating activities:		
Depreciation	301,559	274,379
Bad debts	156,564	144,899
Donated securities	-	(5,208)
Unrealized gains	(122,214)	(126,256)
Gain on sale of assets	-	(677)
Changes in operating assets and liabilities:		
Accounts receivable	(995,027)	(18,670)
Prepaid and other current assets	(5,181)	(6,856)
Other assets	(4,824)	(598,680)
Accounts payable and accrued liabilities	129,340	235,026
Net cash provided by (used in) operating activities	132,766	1,094,095
Cash flows from investing activities:		
Purchase of building and equipment	(186,797)	(315,019)
Proceeds from sale of assets	-	3,272
Investment sales proceeds	32,284	51,024
Investment purchases	(242,411)	(475,483)
Net cash provided by (used in) investing activities	(396,924)	(736,206)
Cash flows from financing activities:		
Proceeds from issuance of long term debt	1,790,000	-
Principal payments on long-term debt	(1,937,174)	(177,499)
Advances on the line-of-credit	250,000	700,000
Principal payments on line-of-credit	(250,000)	(700,000)
Principal payments on capital lease obligations	(13,545)	(14,365)
Net cash provided by (used in) financing activities	(160,719)	(191,864)
Increase (decrease) in cash and cash equivalents	(424,877)	166,025
Cash and cash equivalents, beginning of year	1,202,789	1,036,764
Cash and cash equivalents, end of year	$ 777,912	$ 1,202,789
Supplemental disclosures of cash flow information:		
Interest paid	$ 96,856	$ 105,212
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 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, 2018 and 2017, 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, 2017, 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, 2018 and 2017, the Organization had uninsured cash balances of $524,411 and $996,040, 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, 2018 and 2017 were $156,564 and $144,899, 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 $2,000 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
Furniture, fixtures and minor equipment	2 to 5 Years
Major computer and medical equipment	5 Years
Vehicles	3 to 10 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, 2018 and 2017.

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, 2018 and 2017, the Organization's standard rates for patient services were $13,281,202 and $8,522,959, 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 $11,643 and $4,456, respectively, for the year ended September 30, 2018, and $39,161 and $23,429, respectively, for the year ended September 30, 2017.

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, 2018 and 2017 were $48,477 and $62,758, 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, 2018, and 2017 were $42,799 and $16,551, 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, 2018 and 2017, the Organization received and recognized $18,917 and $27,996, 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, 2018 and 2017, the Organization received $10,468 and $9,798, 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, 2018 and 2017 were $23,757 and $24,740, respectively.

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, 2018 and 2017.

Accounts receivable consist of the following at September 30:

	2018	2017
Medicare	$ 1,261,534	$ 1,141,261
Medi-Cal	1,216,779	550,871
Insurers and private pay	573,492	433,530
Other patient receivables	10,649	6,613
Subtotal	3,062,454	2,132,275
Allowance for doubtful accounts	(150,287)	(58,571)
Total accounts receivable, net	$ 2,912,167	$ 2,073,704

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at September 30:

	2018	2017
Land	$ 805,759	$ 805,759
Buildings and improvements	4,108,611	3,986,074
Office and medical equipment	1,114,465	1,072,882
Furniture and fixtures	395,214	380,344
Vehicles	62,616	59,830
	6,486,665	6,304,889
Accumulated depreciation and amortization	(1,924,287)	(1,627,749)
Property and equipment, net	$ 4,562,378	$ 4,677,140

Total depreciation expense was $301,559 and $274,379 at September 30, 2018 and 2017, respectively.

NOTE 5 – INVESTMENT SECURITIES

Investment securities consist of the following at September 30:

	Fair Value 2018	Fair Value 2017
Bond and equity funds	$ 486,560	$ 379,700
Central Valley Community Foundation investment pool	4,049,607	3,824,126
Total investment securities	$ 4,536,167	$ 4,203,826

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, 2018 and 2017, $4,049,607 and $3,824,126, 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 $486,561 and $379,700 of investment securities, and $29,939 and $15,690 of its cash and cash equivalents held in custodial accounts with Charles Schwab at September 30, 2018 and 2017, 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:

	2018	2017
Interest and dividends	$ 142,093	$ 129,365
Unrealized gains	122,214	126,256
Realized gains	26,974	234,564
Investment fees	(44,375)	(40,644)
Total investment income, net	$ 246,906	$ 449,541

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 $1,800,000 working capital line-of-credit with Wells Fargo Bank. During the years ended September 30, 2018 and 2017, the maximum amounts drawn on the line-of-credit were $250,000 and $700,000, respectively. Interest on the line accrues at the bank's reference rate (5.50% and 4.75% at September 30, 2018 and 2017, respectively). At September 30, 2018 and 2017, there were no balances due on the line-of-credit. Total interest expenses for the years ended September 30, 2018 and 2017 on balances outstanding under the line-of-credit were $240 and $343, respectively. The line-of-credit is secured by the Organization's commercial building. The line-of-credit agreement has been renewed through September 2019. With the renewal, the line-of-credit was increased from $1,000,000 to $1,800,000.

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 $131,732 in the first quarter of 2019 for the year ended September 30, 2018. The amount has been accrued and included in the financial statements. A discretionary contribution of $132,113 was made for the year ended September 30, 2017.

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, 2018 and 2017 which included significant (in excess of $5,000), non-recurring cash contributions from individual donors or bequests in the amount of $1,098,877 and $1,098,235, 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, 2018 and 2017 was $289,318 and $271,629, respectively.

The Organization leases certain office equipment under capital lease obligations, which are secured by such equipment. Capitalized costs and accumulated depreciation were $221,665 and $181,331 for September 30, 2018, and $226,191 and $170,387 at September 30, 2017.

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
2019	$ 15,876	$ 248,508
2020	13,780	262,268
2021	12,723	265,938
2022	5,396	223,326
2023 and thereafter	-	257,802
Total payments	47,775	$ 1,257,842
Less amounts representing interest	(6,230)	
Total minimum lease payments	41,545	
Amounts due within one year	(12,879)	
Long-term capital lease obligation	$ 28,666	

NOTE 10 – LONG-TERM DEBT

During the fiscal year 2018, the Organization refinanced its long-term debt. The original mortgage and a building improvement loan were consolidated into one debt instrument which lowered the interest rate and extended the term. The new mortgage loan is with Wells Fargo Bank and is secured by a commercial building. The annual percentage rate is 4.50%. Monthly principal payments of $13,783 plus interest are scheduled through October 2033. The long-term debt had a principal balance of $1,790,000 and $1,937,174 at September 30, 2018 and 2017, respectively.

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

2019	$ 74,185
2020	88,749
2021	93,099
2022	97,437
2023 and thereafter	1,436,530
	$ 1,790,000

Total interest expense on long-term debt was $95,495 and $101,512 for the years ended September 30, 2018 and 2017, respectively.

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

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

	2018	2017
Unconditional promises to give	$ 48,477	$ 62,758
Arnold and Nancy Red Foundation	1,154,304	1,107,916
Others	127,802	28,514
Total temporarily restricted net assets	$ 1,330,583	$ 1,199,188

NOTE 12 – THRIFT STORES, NET

Thrift stores activities consist of the following at September 30:

	2018	2017
Thrift stores revenue	$ 1,051,695	$ 867,220
Costs and expenses:		
Salaries and wages	367,580	335,426
Employee benefits	72,316	75,174
Depreciation	19,968	12,112
Education	398	149
Maintenance and repairs	14,780	13,416
Occupancy expense	326,784	305,872
Office	10,012	14,275
Professional services	29,521	12,128
Telephone communications	12,879	15,354
Transportation	24,703	39,756
Other	29,794	42,090
Total costs and expenses	908,735	865,752
Thrift store, net	$ 142,960	$ 1,468

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
2018:				
Bond and equity funds	$ 486,560	$ -	$ -	$ 486,560
Central Valley Community Foundation investment pool	-	4,049,607	-	4,049,607
Total investment securities	$ 486,560	$ 4,049,607	$ -	$ 4,536,167
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

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, 2018 and 2017, the fair value of the Organization's investments in available-for-sale Level 2 funds was $4,049,607 and $3,824,126, 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, 2018 through the date the financial statements were available to be issued at December 18, 2018 that would require additional disclosure or adjustment.