CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

HINDS HOSPICE
FRESNO, CALIFORNIA

SEPTEMBER 30, 2019 AND 2018

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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, 2019, 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, 2019, 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 2018 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note 2 to the financial Statements, Hinds Hospice adopted Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Price Paige & Company

Clovis, California
January 21, 2020

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,787,809	$ 777,912
Accounts receivable, net	2,288,048	2,912,167
Prepaid and other current assets	209,183	228,051
Total current assets	6,285,040	3,918,130
Property and equipment, net	5,180,687	4,562,378
Investment securities	4,529,574	4,536,167
Other assets	670,328	708,466
Total assets	$ 16,665,629	$ 13,725,141
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,784,947	$ 1,726,888
Capital lease obligations, current portion	16,239	12,879
Long-term debt, current portion	88,749	74,185
Total current liabilities	1,889,935	1,813,952
Capital lease obligations	37,196	28,666
Long-term debt	1,627,056	1,715,815
Total liabilities	3,554,187	3,558,433
Net assets:		
Without donor restriction	11,700,498	8,836,125
With donor restriction	1,410,944	1,330,583
Total net assets	13,111,442	10,166,708
Total liabilities and net assets	$ 16,665,629	$ 13,725,141

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, 2019
(With Summarized Financial Information for 2018)

	Without Donor Restriction	With Donor Restriction	2019 Total	2018 Total
Revenues and support:				
Patient revenues	$ 19,599,318	$ -	$ 19,599,318	$ 16,814,823
Contributions, memorials and grants	1,690,514	153,172	1,843,686	1,525,634
Special events, net	311,690	-	311,690	256,189
Thrift stores, net	195,022	-	195,022	142,960
Rental income	281,343	-	281,343	241,863
Other operating revenue	250,438	-	250,438	122,844
Investment income, net	(16,472)	55	(16,417)	208,458
Total revenues and support before net assets released from restrictions	22,311,853	153,227	22,465,080	19,312,771
Net assets released from restrictions	72,866	(72,866)	-	-
Total revenues and support after reclassification of net assets released from restrictions	22,384,719	80,361	22,465,080	19,312,771
Costs and expenses:				
Program services	17,457,950	-	17,457,950	16,450,102
General and administrative	1,242,588	-	1,242,588	1,127,547
Fundraising	357,751	-	357,751	576,908
Hospice Charitable Properties, Inc.	462,057	-	462,057	485,665
Total costs and expenses	19,520,346	-	19,520,346	18,640,222
Changes in net assets	2,864,373	80,361	2,944,734	672,549
Net assets, beginning of year	8,836,125	1,330,583	10,166,708	9,494,159
Net assets, end of year	$ 11,700,498	$ 1,410,944	$ 13,111,442	$ 10,166,708

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(With Summarized Financial Information for 2018)

		Supporting Services				
	Program Services	General and Administrative	Fundraising	HCPI Expenses	2019 Total Expenses	2018 Total Expenses
Personnel Costs:						
Salaries and wages	$ 9,958,829	$ 645,657	$ 226,970	$ -	$ 10,831,456	$ 10,515,737
Employee benefits	2,141,110	138,814	48,798	-	2,328,722	2,223,132
Contract labor	644,487	22,083	1,413	-	667,983	637,874
Total personnel costs	12,744,426	806,554	277,181	-	13,828,161	13,376,743
Other Costs and Expenses:						
Bad debts	100,732	-	-	-	100,732	156,564
Telephone communications	179,403	19,035	5,282	-	203,720	176,421
Dues and subscriptions	43,202	18,711	1,818	-	63,731	68,339
Education	86,432	17,429	1,391	-	105,252	82,591
Equipment rental	704,438	2,195	312	-	706,945	617,212
Information systems	183,788	67,002	26,663	-	277,453	209,954
Insurance	6,308	99,670	2,168	5,278	113,424	96,399
Interest	461	487	40	74,547	75,535	96,855
Maintenance and repairs	17,153	708	192	109,124	127,177	113,705
Pharmacy	857,444	-	-	-	857,444	776,506
Medical supplies	373,717	-	-	-	373,717	289,039
Office	203,024	27,500	12,238	492	243,254	211,098
Professional services	353,578	89,758	11,265	-	454,601	487,186
Purchased clinical services	647,127	-	-	-	647,127	578,026
Occupancy expense	90,883	5,647	1,110	116,225	213,865	201,165
Transportation	647,070	15,812	1,836	-	664,718	662,436
Other	101,612	33,928	9,257	32,480	177,277	158,394
Total other costs and expenses	4,596,372	397,882	73,572	338,146	5,405,972	4,981,890
Subtotal	17,340,798	1,204,436	350,753	338,146	19,234,133	18,358,633
Depreciation	117,152	38,152	6,998	123,911	286,213	281,589
Total costs and expenses	$ 17,457,950	$ 1,242,588	$ 357,751	$ 462,057	$ 19,520,346	$ 18,640,222

HINDS HOSPICE
(A CALIFORNIA NOT-FOR-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Changes in net assets	$ 2,944,734	$ 672,549
Adjustments to reconcile changes in net assets to		
Net cash provided by (used in) operating activities:		
Depreciation	308,845	301,559
Bad debts	100,732	156,564
Donated land	(690,000)	-
Unrealized (gains) losses	189,434	(122,214)
Changes in operating assets and liabilities:		
Accounts receivable	523,387	(995,027)
Prepaid and other current assets	18,868	(5,181)
Other assets	38,138	(4,824)
Accounts payable and accrued liabilities	58,059	129,340
Net cash provided by (used in) operating activities	3,492,197	132,766
Cash flows from investing activities:		
Purchase of property and equipment	(211,302)	(186,797)
Investment sales proceeds	32,088	32,284
Investment purchases	(214,929)	(242,411)
Net cash provided by (used in) investing activities	(394,143)	(396,924)
Cash flows from financing activities:		
Proceeds from issuance of long term debt	-	1,790,000
Principal payments on long-term debt	(74,195)	(1,937,174)
Advances on the line-of-credit	(1,077,502)	250,000
Principal payments on line-of-credit	1,077,502	(250,000)
Principal payments on capital lease obligations	(13,962)	(13,545)
Net cash provided by (used in) financing activities	(88,157)	(160,719)
Increase (decrease) in cash and cash equivalents	3,009,897	(424,877)
Cash and cash equivalents, beginning of year	777,912	1,202,789
Cash and cash equivalents, end of year	$ 3,787,809	$ 777,912
Supplemental disclosures of cash flow information:		
Interest paid	$ 75,535	$ 96,856
Noncash investing and financing activities:		
Capitalized lease equipment	$ 25,852	$ -

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.

Hinds Hospice 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. Hinds Hospice also currently operates three thrift stores located in Chowchilla, Clovis, and Madera.

Hospice Charitable Properties, Inc., ("HCPI") is a wholly owned subsidiary of Hinds Hospice. 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.

New Accounting Pronouncement

On August 18, 2016, FASB issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

> Net assets without donor restriction: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.
>
> Net assets with donor restriction: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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, 2018, from which the summarized information was derived.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018, the Organization had uninsured cash balances of $3,402,720 and $524,411, respectively.

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, 2019 and 2018 were $100,732 and $156,564, 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, 2019 and 2018.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018, the Organization's standard rates for patient services were $11,252,360 and $13,281,202, respectively, greater than the amounts paid by third party payers. Such amounts are offset by contractual allowances to arrive at the Organization's net revenues reflected in the accompanying Consolidated Statement of Activities.

The Organization provides charity care to patients who are unable to pay for the care provided. The Organization maintains direct and indirect costs related to providing care to patients. The total amounts of direct and indirect costs of providing charity care to patients were $48,375 and $44,001, respectively, for the year ended September 30, 2019, and $11,643 and $4,456, respectively, for the year ended September 30, 2018.

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 support with donor restriction. Unconditional promises to give at September 30, 2019 and 2018 were $0 and $48,477, 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 support with donor restriction 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, net assets with donor restriction are reclassified to net assets without donor restriction 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 net assets without donor restriction. Net assets released from restrictions during the years ended September 30, 2019, and 2018 were $72,866 and $42,799, 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 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, 2019 and 2018, the Organization received and recognized $12,295 and $18,917, 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, 2019 and 2018, the Organization received $12,301 and $10,468, respectively, in donated services related to its fundraising events.

During the year ended September 30, 2019, the Organization received a 4.21 acre business campus land donation in Clovis, California, appraised at $690,000, which has been recognized as a contribution in the Consolidated Statement of Activities.

Advertising and Promotion

The Organization expenses all advertising and promotion costs as incurred. Total advertising and promotion expenses at September 30, 2019 and 2018 were $43,933 and $23,757, respectively.

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.

The expenses allocated consist of the following:

Expense	Method of Allocation
Salaries and wages	Time and effort
Employee benefits	Time and effort
Contract labor	Time and effort
Dues and subscriptions	Time and effort
Education	Time and effort
Information systems	Time and effort
Insurance	Time and effort
Maintenance and repairs	Time and effort
Office	Time and effort
Professional services	Time and effort
Occupancy expense	Square footage
Other	Time and effort

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes

Hinds Hospice 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets as of September 30, 2019:

Cash and cash equivalents	$ 3,787,809
Accounts receivable	2,288,048
Investments	4,529,574
Total financial assets	10,605,431
Less amounts not available to be used within one year:	
Net assets with donor restrictions	-
Financial assets available to meet general expenditures over the next twelve months	$ 10,605,431

The Organization's goal is to maintain enough cash and cash equivalents and marketable securities to cover 180 days of operational expenses.

NOTE 3 – AVAILABILITY AND LIQUIDITY (Continued)

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, 2019 and 2018 which included significant (in excess of $5,000), non-recurring cash contributions from individual donors or bequests in the amount of $896,912 and $1,098,877, 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 4 – 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, 2019 and 2018.

Accounts receivable consist of the following at September 30:

	2019	2018
Medicare	$ 1,438,984	$ 1,261,534
Medi-Cal	668,963	1,216,779
Insurers and private pay	299,736	573,492
Other patient receivables	60,365	10,649
Subtotal	2,468,048	3,062,454
Allowance for doubtful accounts	(180,000)	(150,287)
Total accounts receivable, net	$ 2,288,048	$ 2,912,167

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at September 30:

	2019	2018
Land	$ 1,495,759	$ 805,759
Buildings and improvements	4,117,574	4,108,611
Office and medical equipment	1,265,951	1,114,465
Furniture and fixtures	412,689	395,214
Vehicles	62,616	62,616
Construction in progress	59,225	-
	7,413,814	6,486,665
Accumulated depreciation and amortization	(2,233,127)	(1,924,287)
Property and equipment, net	$ 5,180,687	$ 4,562,378

Total depreciation expense was $308,845 and $301,559 at September 30, 2019 and 2018, respectively.

NOTE 6 – INVESTMENT SECURITIES

Investment securities consist of the following at September 30:

	Fair Value	
	2019	2018
Bond and equity funds	$ 505,440	$ 486,560
Central Valley Community Foundation investment pool	4,024,134	4,049,607
Total investment securities	$ 4,529,574	$ 4,536,167

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.

The Organization's investment securities, managed by CVCF, were $4,024,134 and $4,049,607, at September 30, 2019 and 2018, respectively. 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 $505,440 and $486,560 of investment securities, and $16,066 and $29,939 of its cash and cash equivalents held in custodial accounts with Charles Schwab at September 30, 2019 and 2018, 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.

NOTE 6 – INVESTMENT SECURITIES (Continued)

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

	2019	2018
Interest and dividends	$ 206,744	$ 103,645
Unrealized gains (losses)	(189,434)	122,214
Realized gains	8,185	26,974
Investment fees	(41,912)	(44,375)
Total investment income, net	$ (16,417)	$ 208,458

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 7 – 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, 2019 and 2018, the maximum amounts drawn on the line-of-credit were $600,000 and $250,000, respectively. Interest on the line accrues at an index rate (5% and 5.50% at September 30, 2019 and 2018, respectively). At September 30, 2019 and 2018, there were no balances due on the line-of-credit. Total interest expenses for the years ended September 30, 2019 and 2018 on balances outstanding under the line-of-credit were $1,005 and $240, respectively. The line-of-credit is secured by the Organization's commercial building. The line-of-credit agreement has been renewed through February 2021.

NOTE 8 – 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 $148,117 in the first quarter of 2020 for the year ended September 30, 2019. The amount has been accrued and included in the financial statements. A discretionary contribution of $131,732 was made for the year ended September 30, 2018.

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, 2019 and 2018 was $315,673 and $289,318, respectively.

The Organization leases certain office equipment under capital lease obligations, which are secured by such equipment. Capitalized costs and accumulated depreciation were $247,517 and $196,912 for September 30, 2019, and $221,665 and $181,331 at September 30, 2018.

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
2020	$ 20,063	$ 262,268
2021	19,076	265,938
2022	11,749	223,326
2023	6,354	226,270
2024	4,766	31,533
2025 and thereafter	-	-
Total payments	62,008	$ 1,009,335
Less amounts representing interest	(8,573)	
Total minimum lease payments	53,435	
Amounts due within one year	(16,239)	
Long-term capital lease obligation	$ 37,196	

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 held 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 total principal balance on long-term debt was $1,715,805 and $1,790,000 at September 30, 2019 and 2018, respectively.

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

2020	$ 88,749
2021	93,099
2022	97,437
2023	101,976
2024	106,562
2025 and thereafter	1,227,982
	$ 1,715,805

Total interest expense on long-term debt was $74,547 and $95,495 for the years ended September 30, 2019 and 2018, respectively.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restriction consist of the following at September 30:

	2019	2018
Unconditional promises to give	$ -	$ 48,477
Arnold and Nancy Red Foundation	1,153,641	1,154,304
Others	257,303	127,802
Total net assets with donor restriction	$ 1,410,944	$ 1,330,583

NOTE 12 – THRIFT STORES, NET

Thrift stores activities consist of the following at September 30:

	2019	2018
Thrift stores revenue	$ 1,218,282	$ 1,051,695
Costs and expenses:		
Salaries and wages	404,949	367,580
Employee benefits	88,928	72,316
Depreciation	22,632	19,968
Education	-	398
Maintenance and repairs	18,867	14,780
Occupancy expense	361,267	326,784
Office	12,134	10,012
Professional services	32,726	29,521
Telephone communications	13,374	12,879
Transportation	25,616	24,703
Other	42,767	29,794
Total costs and expenses	1,023,260	908,735
Thrift store, net	$ 195,022	$ 142,960

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.

NOTE 13 – FAIR VALUE MEASUREMENTS (Continued)

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
2019:				
Bond and equity funds	$ 505,440	$ -	$ -	$ 505,440
Central Valley Community Foundation investment pool	-	4,024,134	-	4,024,134
Total investment securities	$ 505,440	$ 4,024,134	$ -	$ 4,529,574
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

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, 2019 and 2018, the fair value of the Organization's investments in available-for-sale Level 2 funds was $4,024,134 and $4,049,607, 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, 2019 through the date the financial statements were available to be issued at January 21, 2020, that would require additional disclosure or adjustment.