the doorways
BETWEEN HEALING & HOME
Formerly Hospital Hospitality House

Hospital Hospitality House of Richmond, Inc. d.b.a The Doorways

Consolidated Financial Statements

June 30, 2017 and 2016

Keiter
Your Opportunity Advisors

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HOSPITAL HOSPITALITY HOUSE OF RICHMOND, INC.
D.B.A. THE DOORWAYS

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Keiter
Your Opportunity Advisors

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Hospital Hospitality House of Richmond, Inc. d.b.a. The Doorways
Richmond, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hospital Hospitality House of Richmond, Inc., d.b.a. The Doorways, and its subsidiaries (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 entity'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 entity'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 Hospital Hospitality House of Richmond, Inc., d.b.a. The Doorways, and its subsidiaries as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Keiter

August 23, 2017
Glen Allen, Virginia

HOSPITAL HOSPITALITY HOUSE OF RICHMOND, INC.
D.B.A. THE DOORWAYS

Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017			2016		
Assets	Operating	Endowment	Total	Operating	Endowment	Total
Cash and cash equivalents	$ 1,948,826	$ -	$ 1,948,826	$ 1,357,530	$ -	$ 1,357,530
Accounts receivable	51,309	-	51,309	95,405	-	95,405
Pledges receivable, net	1,806,651	-	1,806,651	149,007	-	149,007
Prepaid expenses	37,715	-	37,715	12,561	-	12,561
Marketable securities	4,683,298	3,465,460	8,148,758	4,788,485	3,192,856	7,981,341
Property and equipment, net	3,544,844	-	3,544,844	2,885,793	-	2,885,793
Total assets	$ 12,072,643	$ 3,465,460	$ 15,538,103	$ 9,288,781	$ 3,192,856	$ 12,481,637
Liabilities and Net Assets						
Liabilities:						
Accounts payable	$ 201,570	$ -	$ 201,570	$ 25,415	$ -	$ 25,415
Accrued expenses	53,916	-	53,916	46,974	-	46,974
Deferred revenue	9,370	-	9,370	346,244	-	346,244
Deposits	1,590	-	1,590	1,710	-	1,710
Total liabilities	266,446	-	266,446	420,343	-	420,343
Net assets:						
Unrestricted	9,645,427	1,891,501	11,536,928	8,224,890	1,708,075	9,932,965
Temporarily restricted	1,917,830	529,466	2,447,296	389,007	440,288	829,295
Permanently restricted	-	1,044,493	1,044,493	-	1,044,493	1,044,493
Total controlling interest in net assets	11,563,257	3,465,460	15,028,717	8,613,897	3,192,856	11,806,753
Non-controlling interest in net assets of consolidated subsidiaries	242,940	-	242,940	254,541	-	254,541
Total net assets	11,806,197	3,465,460	15,271,657	8,868,438	3,192,856	12,061,294
Total liabilities and net assets	$ 12,072,643	$ 3,465,460	$ 15,538,103	$ 9,288,781	$ 3,192,856	$ 12,481,637

See accompanying notes to consolidated financial statements.

HOSPITAL HOSPITALITY HOUSE OF RICHMOND, INC.
D.B.A. THE DOORWAYS

Consolidated Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Contributions	$ 1,795,002	$ 1,810,239	$ -	$ 3,605,241
Rent	1,082,343	-	-	1,082,343
Special events income	341,278	-	-	341,278
Investment income	171,541	-	-	171,541
Miscellaneous	5,385	-	-	5,385
Total revenue and support	3,395,549	1,810,239	-	5,205,788
Net assets released from restrictions	281,416	(281,416)	-	-
Appropriation of endowment income	35,251	(35,251)	-	-
Total released from restrictions	316,667	(316,667)	-	-
Expenses and losses:				
Program services:				
House	2,129,534	-	-	2,129,534
Supporting services:				
Management and general	236,532	-	-	236,532
Fundraising	290,077	-	-	290,077
Total expenses	2,656,143	-	-	2,656,143
Loss on disposal of property and equipment	37,652	-	-	37,652
Total expenses and losses	2,693,795	-	-	2,693,795
Change in net assets before realized and unrealized gain and non-controlling interest	1,018,421	1,493,572	-	2,511,993
Net realized and unrealized gain on marketable securities	573,940	124,429	-	698,369
Non-controlling interest	11,602	-	-	11,602
Change in net assets attributable to controlling interest	1,603,963	1,618,001	-	3,221,964
Controlling interest in net assets, beginning of year	9,932,965	829,295	1,044,493	11,806,753
Controlling interest in net assets, end of year	$ 11,536,928	$ 2,447,296	$ 1,044,493	$ 15,028,717

See accompanying notes to consolidated financial statements.

HOSPITAL HOSPITALITY HOUSE OF RICHMOND, INC.
D.B.A. THE DOORWAYS

Consolidated Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:				
Contributions	$ 1,259,606	$ 412,993	$ 1,000	$ 1,673,599
Rent	1,069,375	-	-	1,069,375
Special events income	413,020	-	-	413,020
Investment income	146,534	-	-	146,534
Miscellaneous	12,927	-	-	12,927
Total revenue and support	2,901,462	412,993	1,000	3,315,455
Net assets released from restrictions	160,283	(160,283)	-	-
Appropriation of endowment income	47,653	(47,653)	-	-
Total released from restrictions	207,936	(207,936)	-	-
Expenses and losses:				
Program services:				
House	2,165,998	-	-	2,165,998
Supporting services:				
Management and general	186,936	-	-	186,936
Fundraising	268,099	-	-	268,099
Total expenses	2,621,033	-	-	2,621,033
Loss on disposal of property and equipment	8,036	-	-	8,036
Total expenses and losses	2,629,069	-	-	2,629,069
Change in net assets before realized and unrealized (loss) gain and non-controlling interest	480,329	205,057	1,000	686,386
Net realized and unrealized (loss) gain on marketable securities	(134,810)	1,754	-	(133,056)
Non-controlling interest	11,065	-	-	11,065
Change in net assets attributable to controlling interest	356,584	206,811	1,000	564,395
Controlling interest in net assets, beginning of year	9,576,381	622,484	1,043,493	11,242,358
Controlling interest in net assets, end of year	$ 9,932,965	$ 829,295	$ 1,044,493	$ 11,806,753

See accompanying notes to consolidated financial statements.

HOSPITAL HOSPITALITY HOUSE OF RICHMOND, INC.
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Consolidated Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	Supporting Services		
	House	Management and General	Fundraising	Total
Capital campaign	$ -	$ -	$ 10,094	$ 10,094
Community awareness	10,476	-	-	10,476
Insurance	18,419	-	-	18,419
Laundry	21,601	-	-	21,601
Marketing	58,628	18,355	-	76,983
Miscellaneous	25,843	2,934	-	28,777
Office expense	5,185	-	-	5,185
Postage	-	2,040	-	2,040
Printing and publications	-	2,335	9,264	11,599
Professional fees	11,876	14,154	-	26,030
Property taxes	5,722	-	-	5,722
Repairs and maintenance	301,863	-	-	301,863
Salaries and benefits	1,245,094	188,054	116,897	1,550,045
Special events	-	-	153,822	153,822
Staff development	6,411	3,417	-	9,828
Supplies	31,746	1,399	-	33,145
System support	19,217	3,844	-	23,061
Telephone	21,180	-	-	21,180
Utilities	131,994	-	-	131,994
Waste disposal	8,265	-	-	8,265
	1,923,520	236,532	290,077	2,450,129
Depreciation	206,014	-	-	206,014
	$ 2,129,534	$ 236,532	$ 290,077	$ 2,656,143

See accompanying notes to consolidated financial statements.

HOSPITAL HOSPITALITY HOUSE OF RICHMOND, INC.
D.B.A. THE DOORWAYS

Consolidated Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services	Supporting Services		
	House	Management and General	Fundraising	Total
Community awareness	$ 13,560	$ -	$ -	$ 13,560
Insurance	18,174	-	-	18,174
Laundry	23,960	-	-	23,960
Marketing	60,820	15,995	-	76,815
Miscellaneous	30,811	5,026	-	35,837
Office expense	5,542	-	-	5,542
Postage	-	3,223	-	3,223
Printing and publications	-	2,371	10,805	13,176
Professional fees	30,480	22,106	-	52,586
Property taxes	5,256	-	-	5,256
Repairs and maintenance	359,796	-	-	359,796
Salaries and benefits	1,238,893	132,357	90,865	1,462,115
Special events	-	-	166,429	166,429
Staff development	3,942	806	-	4,748
Supplies	39,809	1,434	-	41,243
System support	32,454	3,618	-	36,072
Telephone	9,168	-	-	9,168
Utilities	136,367	-	-	136,367
Waste disposal	10,141	-	-	10,141
	2,019,173	186,936	268,099	2,474,208
Depreciation	146,825	-	-	146,825
	$ 2,165,998	$ 186,936	$ 268,099	$ 2,621,033

See accompanying notes to consolidated financial statements.

HOSPITAL HOSPITALITY HOUSE OF RICHMOND, INC.
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Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 3,221,964	$ 564,395
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	206,014	146,825
Loss on disposal of property and equipment	37,652	8,036
Net realized and unrealized (gain) loss on marketable securities	(698,369)	133,056
Endowment contribution	-	(1,000)
Net investment income re-invested	(169,048)	(146,437)
Non-controlling interest	(11,602)	(11,065)
Changes in operating assets and liabilities:		
Accounts receivable	44,096	(28,085)
Pledges receivable, net	(1,657,644)	(87,710)
Prepaid expenses	(25,154)	(561)
Accounts payable	58,441	(17,979)
Accrued expenses	6,942	(34,277)
Deferred revenue	(336,874)	333,284
Deposits	(120)	90
Net cash provided by operating activities	676,298	858,572
Cash flows from investing activities:		
Proceeds from sale of marketable securities	3,022,121	7,799,826
Purchase of marketable securities	(2,322,121)	(7,799,826)
Purchase of property and equipment	(785,002)	(434,447)
Net cash used in investing activities	(85,002)	(434,447)
Cash flows provided by financing activities:		
Receipt of endowment contribution	-	1,000
Net change in cash and cash equivalents	591,296	425,125
Cash and cash equivalents, beginning of year	1,357,530	932,405
Cash and cash equivalents, end of year	$ 1,948,826	$ 1,357,530
Supplemental disclosure of non-cash activity:		
Accounts payable for purchase of property and equipment	$ 117,714	$ -

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies:

Hospital Hospitality House of Richmond, Inc., d.b.a. the Doorways, and its subsidiaries (collectively, the “Organization”) provides housing to families of inpatients, same-day surgery patients, and outpatients who are undergoing continuing treatment at VCU Health, Veterans Affairs Medical Center, Virginia Treatment Center for Children, Sheltering Arms Physical Rehabilitation Hospital, HealthSouth Medical Center, Children’s Hospital of Richmond at VCU, and Retreat Hospital. Public support, special events, rents, and investment income are the primary sources of revenue and support.

Basis of Accounting: The consolidated financial statements include the accounts of The Doorways and its majority-owned subsidiary, 7th & Marshall Corporation, and its wholly-owned subsidiary, HHH Development, LLC. HHH Development, LLC was dissolved in 2017. Significant intercompany transactions and balances have been eliminated in consolidation.

The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”), which require reporting information regarding its financial position and activities according to these three classes of net assets:

> Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.
>
> Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. However, contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is recognized.
>
> Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Use of Estimates: The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Future events and circumstances may alter those estimates.

1. Summary of Significant Accounting Policies, Continued:

Cash Equivalents: For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Donated Services: A number of unpaid volunteers have made significant contributions of their time in the furtherance of the Organization's programs. The value of this contributed time is not reflected in these statements because the criteria for recognition under guidance provided by the Financial Accounting Standards Board ("FASB") related to accounting for contributions received and contributions made, had not been satisfied.

Pledges Receivable: Pledges receivable are recorded based on management's estimate of the amount of pledges that will actually be collected. Contributions pledged are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets based upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

The Organization uses the allowance method for estimates of uncollectible pledges and receivables. The allowance is based on historical collection rates and an analysis of individual pledges receivable. This analysis concluded that uncollectible pledges were not significant as of June 30, 2017 and June 30, 2016; accordingly, no provision was made for uncollectible amounts.

Investments: Investments in marketable securities are carried at fair value as determined by the investment managers. Unrealized gains and losses are included in the consolidated statements of activities. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain marketable securities and the level of uncertainty related to changes in the value of marketable securities, it is at least reasonably possible that changes in the risks in the near term could materially affect amounts reported on the consolidated financial statements.

Property and Equipment: Land, buildings, furniture, fixtures and equipment are stated at cost at date of acquisition or fair market value at the date of gift. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets. The costs of major improvements are capitalized while the costs of maintenance and repairs, which do not extend or improve the life of the respective property, are expensed currently. The cost and accumulated depreciation of property are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the consolidated statements of activities.

1. Summary of Significant Accounting Policies, Continued:

Income Taxes: The Organization is a non-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is not considered a private foundation.

Income Tax Uncertainties: The Organization follows FASB guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. The Organization is not currently under audit by any tax jurisdiction.

Concentration of Credit Risk: Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and unsecured pledges receivable. The Organization maintains its cash balances in financial institutions located in Richmond, Virginia. The balances in these institutions are insured by the Federal Deposit Insurance Corporation up to $250,000, and the balances periodically exceed this amount. The ability to collect pledges receivable is affected by economic conditions in the Richmond metropolitan area of Virginia, the Organization's principal service area. At June 30, 2017, approximately 78% of pledges receivable were from two donors.

Non-Controlling Interests: The Organization follows FASB guidance related to non-controlling interests in consolidated financial statements. The guidance requires that a non-controlling ownership interest in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated statements of financial position within net assets, but separate from the parent's net assets. In addition, the standard requires that the amount of consolidated change in net assets attributable to the parent and the non-controlling interest be clearly identified and presented in the Organization's consolidated statements of activities.

Subsequent Events: Management has evaluated subsequent events for potential recognition and/or other disclosure through August 23, 2017, the date the consolidated financial statements were available to be issued. Other than as described in Note 12, there are no subsequent events to be reported in the accompanying consolidated financial statements.

2. Pledges Receivable:

At June 30, 2017 and 2016, the Organization has recorded unconditional pledges receivable related to the operations of the Organization. These pledges are to be received during years subsequent to June 30, 2017 and 2016 as follows:

	2017	2016
Receivable in less than one year	$ 1,068,120	$ 95,400
Receivable in one to four years	759,540	55,800
	1,827,660	151,200
Less: Discount to net present value	(21,009)	(2,193)
Net pledges receivable	$ 1,806,651	$ 149,007

Unconditional promises to give are primarily from individuals and corporations located in the metropolitan Richmond area, and are reflected at the present value of estimated future cash flows using a discount rate of 2.40% for 2017 and 1.80% for 2016.

The Organization has been named the beneficiary of a trust that is currently in the process of liquidation. As the future amount to be received is indeterminable at June 30, 2017, no receivable has been recorded for this trust.

3. Marketable Securities:

Marketable securities are stated at fair market value and consist of the following:

	June 30, 2017	
	Cost	Market Value
Cash and equivalents	$ 25,346	$ 25,346
Equity securities	5,243,414	5,996,933
Fixed income securities	1,687,455	1,686,787
Liquid alternative securities	417,983	439,692
	$ 7,374,198	$ 8,148,758

	June 30, 2016	
	Cost	Market Value
Cash and equivalents	$ 86,074	$ 94,835
Equity securities	4,765,734	4,792,745
Fixed income securities	2,418,461	2,464,961
Liquid alternative securities	583,608	628,800
	$ 7,853,877	$ 7,981,341

4. Property and Equipment:

Below is a summary of property and equipment and accumulated depreciation at June 30:

	2017	2016
Property and equipment:		
Land	$ 402,998	$ 402,998
Buildings and improvements	4,882,810	4,635,587
Furniture and equipment	198,931	231,020
Renovations in progress	602,779	12,015
	6,087,518	5,281,620
Accumulated depreciation:		
Buildings and improvements	2,375,065	2,206,500
Furniture and equipment	167,609	189,327
	2,542,674	2,395,827
Property and equipment, net	$ 3,544,844	$ 2,885,793

Depreciation expense amounted to $206,014 for 2017 and $146,825 for 2016.

5. Joint Venture:

In May 1995, The Doorways entered into a joint venture, 7th & Marshall Corporation (the “Venture”), with University Health Services, Inc. (“UHS”) to acquire the property and improvements located at 7th and Marshall Streets. Previously, this property was privately owned and occupied by The Doorways. As consideration for its interest in the Venture, UHS contributed $500,000 of capital that was used to pay the note payable issued at the time of the original purchase of the property.

The Doorways turned over the property at 7th and Marshall Streets to the Venture at a book value of approximately $2,400,000. The Venture agreement was renewed in 2003.

UHS reimburses The Doorways for 50% of the house expenses, which are recorded as rental income. The Venture has a six-member Board of Directors, three of whom are appointed by UHS and three of whom are appointed by The Doorways.

The agreement may be terminated by either party upon giving 36 months notice to the other party. Upon termination, purchase options at fair market value are available to either party, with UHS having a first right to purchase the property, 85% of which is owned by The Doorways.

6. Restrictions on Net Assets:

Temporarily restricted net assets were available for the following purposes at June 30:

	2017	2016
Time restricted	$ 84,320	$ 26,197
Capital improvements	1,833,510	362,810
Unrealized gain for endowment	529,466	440,288
	$ 2,447,296	$ 829,295

Temporarily restricted net assets were released to expenses to satisfy the following restricted purposes:

	2017	2016
Released from time restrictions	$ 17,400	$ 160,283
Released from purpose restrictions	264,016	-
Total	$ 281,416	$ 160,283

During 2017, the Organization received contributions in the amount $648,790 that were restricted for the purpose of capital improvements for which the restricted purpose was also met and funds spent during 2017. These contributions are shown as unrestricted on the consolidated statement of activities based on Organization's accounting policy for net assets.

7. Endowment Funds:

The Organization's endowment consists of two individually named funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

7. Endowment Funds, Continued:

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment Investing and Spending Policies: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment funds are invested in a manner that is intended to produce stated investment results while assuming a moderate level of investment risk. The Organization's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to earn at least 5%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater value on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Organization's various endowed funds for grant-making and administration. The current spending policy is to distribute the lesser of 50% of the five-year average total return or 5% of market value on the measurement date. This is consistent with the Organization's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

7. Endowment Funds, Continued:

Funds with Deficits: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were not any deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2017 and 2016.

Endowment net asset composition by type of fund was as follows as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 1,044,493	$ 1,044,493
Board-designated funds	1,131,000	-	-	1,131,000
Investment gain	760,501	529,466	-	1,289,967
	$ 1,891,501	$ 529,466	$ 1,044,493	$ 3,465,460

Changes in endowment net assets were as follows for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 1,708,075	$ 440,288	$ 1,044,493	$ 3,192,856
Investment gain	255,932	124,429	-	380,361
Appropriation of endowment income	(72,506)	(35,251)	-	(107,757)
Net assets, end of year	$ 1,891,501	$ 529,466	$ 1,044,493	$ 3,465,460

Endowment net asset composition by type of fund was as follows as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 1,044,493	$ 1,044,493
Board-designated funds	1,131,000	-	-	1,131,000
Investment gain	577,075	440,288	-	1,017,363
	$ 1,708,075	$ 440,288	$ 1,044,493	$ 3,192,856

7. Endowment Funds, Continued:

Changes in endowment net assets were as follows for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	$ 1,808,933	$ 486,187	$ 1,043,493	$ 3,338,613
Investment gain	3,854	1,754	-	5,608
New gift	-	-	1,000	1,000
Appropriation of endowment income	(104,712)	(47,653)	-	(152,365)
Net assets, end of year	$ 1,708,075	$ 440,288	$ 1,044,493	$ 3,192,856

8. Fair Value Measurements:

The Organization has adopted certain provisions of GAAP related to financial assets and liabilities and any other assets and liabilities that are carried at fair value on a recurring basis in the consolidated financial statements.

The guidance establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level that is significant to the fair value measurement of the asset or liability.

Classification of assets and liabilities within the hierarchy considers the market in which the assets or liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 – Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

8. Fair Value Measurements, Continued:

Level 2 – Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions. The Organization did not have any assets or liabilities classified as Level 3 at June 30, 2017 and 2016.

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets carried at fair value:

Pledges receivable, net: Valued at the original gift amount, less payments received and a discount to account for payments expected in future periods beyond one year.

Marketable securities: Valued at the closing price for identical assets in active markets.

Assets measured at fair value on a recurring basis at June 30, 2017 include the following:

	Level 1	Level 2	Assets at Fair Value
Assets:			
Pledges receivable, net	$ -	$ 1,806,651	$ 1,806,651
Marketable securities:			
Cash and equivalents	25,346	-	25,346
Equity securities	5,996,933	-	5,996,933
Fixed income securities	1,686,787	-	1,686,787
Liquid alternative securities	439,692	-	439,692
Total assets at fair value	$ 8,148,758	$ 1,806,651	$ 9,955,409

8. Fair Value Measurements, Continued:

Assets measured at fair value on a recurring basis at June 30, 2016 include the following:

	Level 1	Level 2	Assets at Fair Value
Assets:			
Pledges receivable, net	$ -	$ 149,007	$ 149,007
Marketable securities:			
Cash and equivalents	94,835	-	94,835
Equity securities	4,792,745	-	4,792,745
Fixed income securities	2,464,961	-	2,464,961
Liquid alternative securities	628,800	-	628,800
Total assets at fair value	$ 7,981,341	$ 149,007	$ 8,130,348

9. Retirement Plan:

The Organization adopted a 401(k) defined contribution salary deferral plan covering substantially all employees. Under the plan, the Organization makes a matching contribution in the amount of 100% of the elective contributions made by the participants up to the first 3% of compensation, and 50% of the next 2% of compensation. Retirement plan expense incurred by the Organization was $40,284 for 2017 and $34,230 for 2016.

10. Lease:

In May 2016, the Organization entered into a five year lease agreement for bulk television cable. The lease requires monthly payments totaling $649, which are included in the future minimum lease payments schedule below:

Year Ending June 30:	Amount
2018	$ 7,788
2019	7,788
2020	7,788
2021	7,139
	$ 30,503

11. Commitments and Contingencies:

In connection with building renovations, the Organization entered into a construction contract for $1,265,589. At June 30, 2017, there was a remaining commitment of $971,393.

From time to time, the Organization may be involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Organization's financial position or results of operations.

12. Subsequent Event:

In July 2017, the Organization obtained a $2.4 million line of credit for a term of one year at a floating rate of the 30-day London Interbank Offered Rate (LIBOR) plus 1.67%, subject to certain other covenants, conditions, and requirements and renewable annually. The line of credit will be used to fund construction projects in advance of cash received from pledge payments related to the capital campaign.

13. Accounting Standard Update:

In August 2016, the FASB issued new accounting guidance, which both simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to the various stakeholders, including management, directors, lenders, and donors. Significant changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions

- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of *net assets with donor restrictions* and requires additional disclosures for underwater endowment funds

- Requires all not-for-profits to provide expenses by nature and function

- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources

The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.