

SAMARITAN INNS, INC.
FINANCIAL STATEMENTS
June 30, 2018

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**ANDERSON
DAVIS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Samaritan Inns, Inc.
Washington, D.C.

We have audited the accompanying financial statements of Samaritan Inns, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
December 11, 2018

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SAMARITAN INNS, INC.
STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

ASSETS

	2018	2017
Current assets		
Cash and cash equivalents	\$ 747,852	\$ 1,059,816
Investments	909,394	862,442
Accounts receivable, net	278,713	308,078
Contributions and grants receivable	275,000	275,000
Prepaid expenses and other assets	1,256	2,017
Total current assets	2,212,215	2,507,353
Property and equipment		
Land	649,263	649,263
Buildings and improvements	10,165,823	10,136,453
Furniture and equipment	788,480	776,232
Computers, equipment and software	167,631	165,043
	11,771,197	11,726,991
Less: Accumulated depreciation and amortization	(6,244,768)	(5,929,203)
Net property and equipment	5,526,429	5,797,788
Noncurrent assets		
Contributions and grants receivable, net of current portion	-	250,000
Sculptures	42,951	42,951
Total other assets	42,951	292,951
Total assets	\$ 7,781,595	\$ 8,598,092

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued liabilities	\$ 152,197	\$ 127,167
Annuities payable	16,698	16,698
Tenants' security deposits	67,246	69,760
Total current liabilities	236,141	213,625
Long-term liabilities		
Annuities payable, net of current portion	47,907	54,554
Total long-term liabilities	47,907	54,554
Total liabilities	284,048	268,179
Net assets		
Unrestricted:		
Undesignated	1,131,118	1,392,125
Invested in property and equipment	4,777,826	5,007,241
Board designated	500,000	500,000
Total unrestricted	6,408,944	6,899,366
Temporarily restricted	1,088,603	1,430,547
Total net assets	7,497,547	8,329,913
Total liabilities and net assets	\$ 7,781,595	\$ 8,598,092

See independent auditor's report and notes to the financial statements.

SAMARITAN INNS, INC.
STATEMENTS OF ACTIVITIES
For the year ended June 30, 2018

	2018		
	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions and grants:			
Individuals	\$ 283,924	\$ -	\$ 283,924
Foundations	154,085	25,000	179,085
Corporations	92,000	-	92,000
Churches	5,500	-	5,500
Capital campaign	-	3,846	3,846
Special events and sponsorships	74,261	-	74,261
Fee for service revenue	1,475,482	-	1,475,482
Rent from residents	721,381	-	721,381
Rental income from non-residents	93,950	-	93,950
Interest and investment income	77,630	-	77,630
Other	41,894	-	41,894
In-kind contributions	12,116	-	12,116
Net assets released from donor restrictions	370,790	(370,790)	-
Total support and revenue	<u>3,403,013</u>	<u>(341,944)</u>	<u>3,061,069</u>
Expenses			
Program services	2,920,660	-	2,920,660
Management and general	379,215	-	379,215
Fundraising	217,944	-	217,944
Total expenses	<u>3,517,819</u>	<u>-</u>	<u>3,517,819</u>
Changes in net assets before other items	(114,806)	(341,944)	(456,750)
Other items			
Change in value of split interest agreements	(10,051)	-	(10,051)
Depreciation and amortization	(315,565)	-	(315,565)
Refunded grant	(50,000)	-	(50,000)
Change in net assets	(490,422)	(341,944)	(832,366)
Net assets at beginning of year	6,899,366	1,430,547	8,329,913
Net assets at end of year	<u>\$ 6,408,944</u>	<u>\$ 1,088,603</u>	<u>\$ 7,497,547</u>

2017		
Unrestricted	Temporarily Restricted	Total
\$ 236,974	\$ -	\$ 236,974
522,760	525,000	1,047,760
69,550	-	69,550
11,300	-	11,300
-	109,351	109,351
65,783	-	65,783
1,066,342	-	1,066,342
751,005	-	751,005
94,200	-	94,200
74,185	-	74,185
47,614	-	47,614
10,181	-	10,181
118,238	(118,238)	-
<u>3,068,132</u>	<u>516,113</u>	<u>3,584,245</u>
2,608,782	-	2,608,782
347,922	-	347,922
242,540	-	242,540
<u>3,199,244</u>	<u>-</u>	<u>3,199,244</u>
(131,112)	516,113	385,001
(10,491)	-	(10,491)
(316,763)	-	(316,763)
<u>-</u>	<u>-</u>	<u>-</u>
(458,366)	516,113	57,747
7,357,732	914,434	8,272,166
<u>\$ 6,899,366</u>	<u>\$ 1,430,547</u>	<u>\$ 8,329,913</u>

See independent auditor's report and notes to the financial statements.

SAMARITAN INNS, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2018

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and related benefits	\$ 2,208,946	\$ 157,975	\$ 179,260	\$ 2,546,181
Utilities	296,650	37,849	2,591	337,090
Repairs and maintenance	189,820	10,913	-	200,733
Insurance	26,569	71,615	-	98,184
Meals	86,733	-	-	86,733
Bad debt expense	42,126	-	-	42,126
Professional fees	668	34,324	338	35,330
Bank and investment fees	-	18,560	2,334	20,894
Technical services	2,722	18,057	-	20,779
Fundraising expense	-	-	17,166	17,166
Printing and production	7,123	4,579	4,798	16,500
Office supplies	3,102	11,452	855	15,409
In-kind expenses	7,120	4,996	-	12,116
Licenses and fees	10,983	998	133	12,114
Staff development	5,466	5,271	158	10,895
Travel and entertainment/transportation	9,288	30	294	9,612
Other taxes	9,000	-	-	9,000
Capital campaign expenses	-	-	8,454	8,454
Drug screening/TB screening	7,682	-	-	7,682
Resident specials/resident supplies	6,214	42	-	6,256
Miscellaneous	360	750	1,499	2,609
Interest expense	88	805	-	893
Postage and delivery	-	630	64	694
Membership fees	-	369	-	369
Total expenses	<u>2,920,660</u>	<u>379,215</u>	<u>217,944</u>	<u>3,517,819</u>
Depreciation and amortization	315,565	-	-	315,565
Refunded grant	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
 Total	 <u>\$ 3,286,225</u>	 <u>\$ 379,215</u>	 <u>\$ 217,944</u>	 <u>\$ 3,883,384</u>

See independent auditor's report and notes to the financial statements.

SAMARITAN INNS, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total Expenses</u>
Salaries and related benefits	\$ 1,939,603	\$ 160,591	\$ 195,566	\$ 2,295,760
Utilities	287,252	20,982	2,382	310,616
Repairs and maintenance	175,974	3,613	-	179,587
Meals	92,602	-	-	92,602
Insurance	31,529	54,369	-	85,898
Professional fees	-	50,001	-	50,001
Fundraising expense	-	-	24,882	24,882
Printing and production	8,750	2,606	11,787	23,143
Technical services	-	21,059	-	21,059
Bank and investment fees	1,130	18,140	1,531	20,801
Other taxes	16,241	-	-	16,241
Staff development	11,453	2,798	87	14,338
Office supplies	4,290	9,222	-	13,512
Bad debt expense	11,805	-	-	11,805
Resident specials/resident supplies	11,087	-	-	11,087
Travel and entertainment/transportation	8,562	15	87	8,664
Drug screening/TB screening	5,662	-	-	5,662
Capital campaign expenses	-	-	5,052	5,052
Miscellaneous	400	1,214	971	2,585
Licenses and fees	845	908	44	1,797
Interest expense	-	1,504	-	1,504
Loss on disposal of fixed assets	1,486	-	-	1,486
Postage and delivery	111	900	151	1,162
Total expenses	<u>2,608,782</u>	<u>347,922</u>	<u>242,540</u>	<u>3,199,244</u>
Depreciation and amortization	<u>316,763</u>	<u>-</u>	<u>-</u>	<u>316,763</u>
Total	<u>\$ 2,925,545</u>	<u>\$ 347,922</u>	<u>\$ 242,540</u>	<u>\$ 3,516,007</u>

See independent auditor's report and notes to the financial statements.

SAMARITAN INNS, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (832,366)	\$ 57,747
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	315,565	316,763
Unrealized gain on investments	(17,626)	(28,034)
Realized gain on sales of investments	(24,641)	(29,399)
Annuity discount and amortization	10,051	10,491
Loss on disposal of fixed assets	-	1,486
Changes in assets and liabilities:		
Decrease (increase) in:		
Pledges and grants receivable	250,000	(500,000)
Accounts receivable	29,365	(205,183)
Prepaid expenses and other assets	761	8,740
Increase (decrease) in:		
Accounts payable and accrued liabilities	25,030	17,619
Tenants' security deposits	(2,514)	9,215
Net cash used in operating activities	(246,375)	(340,555)
Cash flows from investing activities:		
Purchase of property and equipment	(44,206)	(84,322)
Purchases of investments	(166,728)	(161,888)
Proceeds from sales of investments	162,043	179,115
Net cash used in investing activities	(48,891)	(67,095)
Cash flows from financing activities:		
Payments of annuity obligations	(16,698)	(17,404)
Net cash used in financing activities	(16,698)	(17,404)
Net decrease in cash	(311,964)	(425,054)
Cash and cash equivalents, beginning of year	1,059,816	1,484,870
Cash and cash equivalents, end of year	\$ 747,852	\$ 1,059,816
Supplementary cash flow information:		
Interest paid	\$ 893	\$ 1,504
Income taxes paid	\$ -	\$ -

See independent auditor's report and notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. ORGANIZATION AND PURPOSE

Samaritan Inns, Inc. (the Organization) is a non-profit organization, incorporated and located in the District of Columbia. The Organization began operations in 1986. The primary purpose of the Organization is to provide housing for homeless individuals, while also providing access to additional programs designed to address many of the problems associated with homelessness. These issues include hunger, physical and emotional illness, lack of education and training, drug and alcohol addiction and unemployment. The Organization is supported primarily by contributions and grants, as well as rental income from its Inns.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

Basis of Presentation

The Organization follows the recommendations of the FASB in its ASC. Under these recommendations, the Organization is required to report information regarding its financial position and activities according to three classes of net asset: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets - Unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Organization and include both internally designated and undesignated resources.
- Temporarily restricted net assets - Revenue and contributions subject to donor-imposed stipulations that will be met by the 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 Statements of Activities as net assets released from restrictions.
- Permanently restricted net assets - The principal amounts of gifts which are required by donors to be permanently restricted.

As of June 30, 2018 and 2017, the Organization did not have any permanently restricted net assets.

Cash and Cash Equivalents

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, the Organization maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal. At June 30, 2018, the Organization's cash balance exceeded the federally insured limit by \$333,284.

Investments

Investments are recorded at their readily determinable fair value. Unrealized and realized gains and losses are included in investment income in the Statements of Activities.

Pledges and grants receivable

Pledges and grants receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Accounts receivable

Accounts receivable includes amounts due under fee for service contract payments and rent payments receivable; such amounts approximate fair value. The Organization uses the allowance method for recording potentially uncollectible accounts.

NOTES TO THE FINANCIAL STATEMENTS

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION** (continued)

Property and equipment

Property and equipment acquisitions in excess of \$500 are capitalized and stated at cost. Buildings and improvements are depreciated on a straight-line basis over useful lives of forty years. Furniture, fixtures, and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, five to ten years. Software is amortized over a five-year period on the straight-line basis. The cost of maintenance and repairs is expensed as incurred.

Property and equipment purchased with temporarily restricted funds

Certain property and equipment have been acquired with temporarily restricted funds. The depreciation expense related to these fixed assets is recorded as a release of temporarily restricted net assets. The net book value of these fixed assets is included with temporarily restricted net assets.

Income taxes

Samaritan Inns, Inc. is a not-for-profit organization classified as a 501(c)(3) organization under the Internal Revenue Code. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. Management represents the Organization did not have any unrelated business income for the years ended June 30, 2018 or 2017. The Organization is not classified as a private foundation by the Internal Revenue Service.

The Organization adopted the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) for Accounting of Uncertainty in Income Taxes without any material effect to the financial statements. These recommendations clarify the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. They also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. Samaritan Inns, Inc. has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2018 and 2017.

With few exceptions, the Organization's returns remain open for three years for federal and state examinations.

Risks and uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. 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 that such changes could materially affect the amounts reported in the accompanying financial statements.

Contributions and Promises to Give

Unconditional contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Rental Income

Rental income is recorded as revenue on a monthly basis, as earned, through the use of facilities.

NOTES TO THE FINANCIAL STATEMENTS

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION** (continued)

Fee for service revenue

Fee for service revenue represents contract fees for providing certain drug addiction recovery and community health, education and mentoring services. The fees are recorded as revenue on a monthly basis, as earned.

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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

In-kind contributions

In-kind contributions consist of legal, meals and technical services. In-kind contributions are recorded at their fair value as of the date of the gift. During the years ended June 30, 2018 and 2017, the value of in-kind contributions received totaled \$12,116 and \$10,181, respectively.

In addition, volunteers have donated significant amounts of their time to the Organization; these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Fair value measurement

The Organization adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Organization accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Subsequent events

The Organization has evaluated events and transactions for potential recognition or disclosure through December 11, 2018, the date that these financial statements were available to be issued.

Note 3. **INVESTMENTS**

Investments consist of the following at June 30,:

	2018	2017
Cash and money funds	\$ 25,125	\$ 44,189
Preferred stock	3,804	3,785
Government securities	46,689	46,944
Corporate bonds	130,747	177,824
Exchange traded funds	703,029	589,700
	<u>\$ 909,394</u>	<u>\$ 862,442</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 3. INVESTMENTS (continued)

Included in interest and investment income consist of the following for the years ended June 30,:

	2018	2017
Interest and dividends	\$ 35,363	\$ 16,752
Unrealized gain on investments	17,626	28,034
Realized gain on sales of investments	24,641	29,399
	<u>\$ 77,630</u>	<u>\$ 74,185</u>

Note 4. ACCOUNTS RECEIVABLE

The following schedule summarizes the Organization's aged accounts receivable as of June 30,:

	2018	2017
Current	\$ 157,845	\$ 77,031
31-60 days	37,572	91,558
61-90 days	2,784	88,302
Over 90 days	97,741	51,187
Less: Allowance for potentially uncollectible accounts	(17,229)	-
	<u>\$ 278,713</u>	<u>\$ 308,078</u>

Note 5. CONTRIBUTIONS AND GRANTS RECEIVABLE

Following is a schedule of the expected collections as of June 30,:

	2018	2017
Less than one year	\$ 275,000	\$ 275,000
One to five years	-	250,000
	<u>\$ 275,000</u>	<u>\$ 525,000</u>

Note 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30,:

	2018	2017
Capital Campaign	\$ 65,000	\$ 115,000
Capital Campaign - unamortized value of capital assets	748,603	790,547
General operations - restricted for time	275,000	525,000
	<u>\$ 1,088,603</u>	<u>\$ 1,430,547</u>

Note 7. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses or other events which satisfied the restricted purposes specified by the donors during the years ended June 30,:

	2018	2017
Capital Campaign - depreciation on capital assets	\$ 41,944	\$ 41,944
Computer lab	-	1,943
Capital campaign	53,846	49,351
General operations	275,000	25,000
	<u>\$ 370,790</u>	<u>\$ 118,238</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 8. **BOARD DESIGNATED NET ASSETS**

Board designated net assets are \$500,000 at June 30, 2018 and 2017 and consists of cash and investments set aside for future expenditures.

Note 9. **LINE OF CREDIT**

The Organization has a line of credit with a limit of \$700,000. This agreement is collateralized by the assets of the organization. The interest rate is equal to the prime rate as published in the "Money Rates" section of The Wall Street Journal plus 1.15%. The interest rate was 6.15% and 5.40% at June 30, 2018 and 2017, respectively. There was no balance on the line of credit at June 30, 2018 and 2017. There were no borrowings and no interest was paid on this line of credit during the years ended June 30, 2018 and 2017. This line matures on August 19, 2019.

Note 10. **RETIREMENT PLAN**

The Organization has adopted a retirement plan for its full-time employees. The plan has a salary reduction component. There is currently no employer contribution.

Note 11. **CHARITABLE GIFT ANNUITIES**

The Organization has entered into charitable gift annuity agreements with a donor in May 2000, January 2003 and April 2004. The donor was a member of the Organization's Board of Directors. Under the terms of the agreement, the Organization received cash and stocks valued at \$109,680. In return, the Organization agreed to distribute \$8,470 in annual payments, payable in \$706 monthly installments, to the donor until the later of his death or the death of his successor. The original donor died in 2013 when payments to his successor began. The successor died during the year ended June 30, 2017.

The Organization entered into charitable gift annuity agreements with a donor in October 2002 and July 2003. Under the terms of the agreements, the Organization received cash and stocks valued at \$338,983. In return, the Organization agreed to distribute \$24,486 annual payments, payable in \$12,243 semi-annual installments, to the donor until her death. On June 15, 2011, the donor gifted the first of the two annuities to the Organization. Accordingly, the annual payments on the remaining annuity equal \$12,588, payable in \$6,294 semi-annual installments, to the donor until her death.

The Organization entered into a charitable gift annuity agreement with a donor in October 2004. Under the terms of the agreement, the Organization received cash of \$5,000. In return, the Organization agreed to distribute \$310 annual payments, payable in \$155 semi-annual installments, to the donor until the later of his death or the death of his successor.

The Organization entered into a charitable gift annuity agreement with a donor in February 2005. Under the terms of the agreement, the Organization received cash of \$50,000. In return, the Organization agreed to distribute \$3,800 annual payments, payable in \$950 quarterly installments, to the donor until the later of his death or the death of his successor.

The Organization records the liability at the present value of the expected future cash flows based on the donors' life expectancy. The present value of the annuity payments totaled \$64,605 and \$71,252 for the years ended June 30, 2018 and 2017, respectively, using a discount rate of 3.4% and 2.4%, respectively. The liability is funded by the Organization's investments. At June 30, 2018 and 2017, the Organization had investments with a fair market value of \$250,608 and \$239,434, respectively, in an internally segregated account. Various state laws require the Organization to maintain additional reserves for the charitable annuities.

NOTES TO THE FINANCIAL STATEMENTS

Note 12. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

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 unobserved inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

- **Level 1** - These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organization has the ability to access.
- **Level 2** - These are investments where values are based on quoted prices in markets that are not active or model inputs that are observed either directly or indirectly for substantially the full-term of the investments.
- **Level 3** - These are investments where inputs to the valuation methodology are unobserved and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2018 or 2017.

- *Cash and money funds* - Fair value is equal to the reported net asset value of the fund.
- *Preferred stock* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Government securities* - Valued at the nominal rate less unamortized discount.
- *Corporate bonds* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Exchange traded funds* - Fair value is equal to the published closing price of the fund.
- *Charitable Gift Annuities* – Valued at the present value of the estimated stream of beneficiary payments throughout the donors' expected lives using IRS annuity tables and a discount rate of 3.4% and 2.4%.

The table below summarizes by level within the fair value hierarchy, the Organization's investments and charitable gift annuities as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and money funds	\$ 25,125	\$ -	\$ -	\$ 25,125
Preferred stock	3,804	-	-	3,804
Government securities	-	46,689	-	46,689
Corporate bonds	130,747	-	-	130,747
Exchange traded funds	703,029	-	-	703,029
Total	<u>\$ 862,705</u>	<u>\$ 46,689</u>	<u>\$ -</u>	<u>\$ 909,394</u>
Liabilities:				
Charitable gift annuities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,605</u>	<u>\$ 64,605</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 12. FAIR VALUE MEASUREMENT (continued)

The table below summarizes by level within the fair value hierarchy, the Organization's investments and charitable gift annuities as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and money funds	\$ 44,189	\$ -	\$ -	\$ 44,189
Preferred stock	3,785	-	-	3,785
Government securities	-	46,944	-	46,944
Corporate bonds	177,824	-	-	177,824
Exchange traded funds	589,700	-	-	589,700
Total	<u>\$ 815,498</u>	<u>\$ 46,944</u>	<u>\$ -</u>	<u>\$ 862,442</u>
Liabilities:				
Charitable gift annuities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,252</u>	<u>\$ 71,252</u>

The following summarizes the changes in the fair value measurement of instruments using level 3 inputs for the years ended June 30, 2018 and 2017:

<u>Charitable gift annuities</u>	
Beginning balance, July 1, 2016	\$ 78,165
Change in value	10,491
Payments to annuitants	<u>(17,404)</u>
Ending balance, June 30, 2017	<u>\$ 71,252</u>
Change in value	10,051
Payments to annuitants	<u>(16,698)</u>
Ending balance, June 30, 2018	<u>\$ 64,605</u>