

DUET PARTNERS IN HEALTH & AGING, INC.

FINANCIAL STATEMENTS
Year Ended December 31, 2017

DUET PARTNERS IN HEALTH & AGING, INC.

Year Ended December 31, 2017

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**Audit, Tax, Management Advisory,
Forensic and Internal Control Consulting**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Duet Partners In Health & Aging:

Report on the Financial Statements

I have audited the accompanying financial statements of Duet Partners In Health & Aging (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Duet Partners In Health & Aging as of December 31, 2017, and the changes in its net assets and its 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

I have previously audited *Duet Partners In Health & Aging 2016* financial statements, and I expressed an unmodified opinion on those audited financial statements in my report dated May 18, 2016. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gregory Michael Coy, CPA, PLLC

Gregory Michael Coy, CPA, PLLC

Phoenix, AZ

November 8, 2018

DUET PARTNERS IN HEALTH & AGING, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2017

(with summarized comparative totals as of December 31, 2016)

ASSETS

	<u>2017</u>	<u>2016</u>
Cash & cash equivalents	\$ 211,561	\$ 271,205
Accounts receivable	90,988	38,118
Contributions receivable	192,710	243,121
Investments, current portion	512,791	559,876
Prepaid expenses and other assets	<u>36,071</u>	<u>26,855</u>
Total current assets	1,044,121	1,139,175
PROPERTY AND EQUIPMENT, NET	348,141	75,833
CONTRIBUTIONS RECEIVABLE	90,770	90,000
INVESTMENTS, NET OF CURRENT PORTION	<u>166,200</u>	<u>166,200</u>
TOTAL ASSETS	<u>\$ 1,649,232</u>	<u>\$ 1,471,208</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 25,779	\$ 6,712
Accrued payroll & other related expenses	184,104	107,629
Deferred rent	<u>200,861</u>	<u>-</u>
Total current liabilities	410,744	114,341
TOTAL LIABILITIES	<u>410,744</u>	<u>114,341</u>
NET ASSETS		
Unrestricted	84,450	163,821
Unrestricted, board designated	<u>382,039</u>	<u>502,684</u>
Total unrestricted net assets	466,489	666,505
Temporarily restricted net assets	605,799	524,162
Permanently restricted net assets	<u>166,200</u>	<u>166,200</u>
TOTAL NET ASSETS	<u>1,238,488</u>	<u>1,356,867</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,649,232</u>	<u>\$ 1,471,208</u>

DUET PARTNERS IN HEALTH & AGING, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

(with summarized comparative totals as of December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
SUPPORT AND REVENUES					
Governmental grant revenue	237,991	\$ -	\$ -	\$ 237,991	\$ 226,457
Contributions	260,649	615,600	-	876,249	1,203,900
Donated occupancy	48,600	-	-	48,600	48,600
Workshop and resource sales	28,073	-	-	28,073	23,864
Special events	272,507	-	-	272,507	311,920
Direct donor benefit	(82,236)	-	-	(82,236)	(80,323)
Interest and dividend income	7,525	6,085	-	13,610	11,099
Total support and revenue	<u>773,109</u>	<u>621,685</u>	<u>-</u>	<u>1,394,794</u>	<u>1,745,517</u>
Release from restrictions	<u>767,523</u>	<u>(767,523)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT & REVENUE	<u>1,540,632</u>	<u>(145,838)</u>	<u>-</u>	<u>1,394,794</u>	<u>1,745,517</u>
EXPENSES					
Program services:	1,192,022	-	-	1,192,022	1,002,454
Supporting services:					
Management and general	251,363	-	-	251,363	193,588
Fundraising	169,090	-	-	169,090	106,583
Total supporting services	<u>420,453</u>	<u>-</u>	<u>-</u>	<u>420,453</u>	<u>300,171</u>
TOTAL EXPENSES	<u>1,612,475</u>	<u>-</u>	<u>-</u>	<u>1,612,475</u>	<u>1,302,625</u>
INVESTMENT GAIN (LOSS)					
Endowment gain (loss)	(128,173)	227,475	-	99,302	36,818
Other investments - gain (loss)	-	-	-	-	415
TOTAL INVESTMENT GAIN (LOSS)	<u>(128,173)</u>	<u>227,475</u>	<u>-</u>	<u>99,302</u>	<u>37,233</u>
CHANGE IN NET ASSETS	<u>(200,016)</u>	<u>81,637</u>	<u>-</u>	<u>(118,379)</u>	<u>480,125</u>
NET ASSETS, BEGINNING OF YEAR	<u>666,505</u>	<u>524,162</u>	<u>166,200</u>	<u>1,356,867</u>	<u>876,742</u>
NET ASSETS, END OF YEAR	<u>\$ 466,489</u>	<u>\$ 605,799</u>	<u>\$ 166,200</u>	<u>\$ 1,238,488</u>	<u>\$ 1,356,867</u>

DUET PARTNERS IN HEALTH & AGING, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

(with summarized comparative totals as of December 31, 2016)

	Program Services					Supporting Services		Total	
	Homebound Adults	Family Caregivers	Congregational Health Training	Grandparents Raising Grandchildren	Total Program Services	Management and General	Fundraising	2017	2016
Salaries & wages	\$ 338,859	\$ 198,008	\$ 90,839	\$ 143,913	\$ 771,619	\$ 162,285	\$ 86,756	\$ 1,020,660	\$ 803,121
Employee related expense	54,392	31,784	14,581	23,100	123,857	26,049	13,926	163,832	150,320
Total salaries, wages and employee related expense	393,251	229,792	105,420	167,013	895,476	188,334	100,682	1,184,492	953,441
Professional fees	9,532	5,750	2,555	4,318	22,155	7,497	19,955	49,607	53,676
Postage & supplies	2,739	11,222	1,743	1,135	16,839	9,144	4,982	30,965	21,926
Program costs	681	27,712	-	24,634	53,027	-	-	53,027	22,169
Needs related payments	-	-	-	-	-	-	-	-	20,319
Travel	1,367	3,079	-	2,209	6,655	1,068	582	8,305	5,919
Computer parts & service	396	93	447	131	1,067	2,775	1,512	5,354	5,526
Volunteer expenses	8,593	-	-	-	8,593	-	-	8,593	7,611
Donated occupancy	22,060	4,447	5,657	8,660	40,824	4,457	3,319	48,600	48,600
Office rent	14,349	2,893	3,680	5,633	26,555	2,899	2,159	31,613	10,800
Equipment rent & maintenance	3,223	2,081	1,560	1,040	7,904	2,892	1,576	12,372	8,766
Insurance	13,485	2,383	1,093	1,732	18,693	1,409	681	20,783	21,027
Advertising and communications	5,358	538	25	-	5,921	7,835	4,269	18,025	17,625
Training & education	292	180	3,894	85	4,451	757	413	5,621	7,578
Dues & fees	1,933	957	828	787	4,505	768	410	5,683	4,364
Telephone	2,647	1,394	639	1,013	5,693	879	610	7,182	5,353
Videoseries & grandparents book	-	6,821	-	-	6,821	-	-	6,821	11,202
Printing & duplication	4,550	2,364	3,358	1,750	12,022	1,120	599	13,741	20,291
Central services costs	244	143	65	104	556	116	63	735	5,544
Partner appreciation	7,280	1,545	709	1,123	10,657	1,266	677	12,600	11,746
Bank charges & payroll fees	4,721	2,759	1,266	2,005	10,751	2,261	1,209	14,221	12,894
Other	10,079	6,557	2,986	4,770	24,392	14,447	24,622	63,461	23,533
Total expenses before depreciation	506,780	312,710	135,925	228,142	1,183,557	249,924	168,320	1,601,801	1,299,910
Depreciation expense	4,454	1,756	806	1,449	8,465	1,439	770	10,674	2,715
TOTAL EXPENSES	\$ 511,234	\$ 314,466	\$ 136,731	\$ 229,591	\$ 1,192,022	\$ 251,363	\$ 169,090	\$ 1,612,475	\$ 1,302,625

DUET PARTNERS IN HEALTH & AGING

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

(with summarized comparative totals as of December 31, 2016)

	2017	2016
Cash flow from operating activities:		
Change in net assets	\$ (118,379)	\$ 480,125
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	10,673	2,715
Net realized and unrealized (gain) loss	(99,302)	(37,233)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	49,641	(305,580)
Accounts receivable	(52,870)	(3,984)
Due from related party	-	-
Other assets	(9,216)	(2,862)
Increase (decrease) in:		
Accounts payable	19,067	3,499
Accrued payroll and related expenses	76,475	32,358
Deferred rent	<u>200,861</u>	<u>-</u>
Net cash provided (used) by operating activities	76,950	169,038
Cash flows from investing activities:		
Purchases of investments	(653,160)	(11,097)
Purchases of property & equipment	(282,981)	(70,179)
Proceeds from sales of investments	<u>799,547</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(136,594)</u>	<u>(81,276)</u>
Net increase (decrease) in cash	(59,644)	87,762
Cash at the beginning of the year	<u>271,205</u>	<u>183,443</u>
Cash at the end of the year	<u>\$ 211,561</u>	<u>\$ 271,205</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Taxes	<u>\$ -</u>	<u>\$ -</u>

DUET PARTNERS IN HEALTH & AGING

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with summarized comparative totals as of December 31, 2016)

(1) Organization operations and summary of significant accounting policies

Nature of operations – Duet Partners in Health & Aging, (the Organization), (formerly Beatitudes Center DOAR - Developing Older Adult Resources) was incorporated in the state of Arizona in 1981 as a not-for-profit corporation. The Organization's mission is to promote health and well-being through vitality needed services to homebound adults, family caregivers, faith communities and grandfamilies. The Organization partners with volunteers, congregations, and donors to provide one-on-one services at no charge throughout the greater Phoenix, Arizona area.

The significant accounting policies followed by the Organization are as follows:

Basis of accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other assets and liabilities.

Basis of presentation - The financial statement presentation follows the recommendations for the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) in FASB ASC 958. Under this standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - 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.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on related investments for general or specific purposes.

Prior year summarized comparative information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016.

Managements' use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising – The Organization uses advertising primarily to promote its programs. Advertising costs are expensed as incurred. Advertising expense was \$18,026 and \$17,625 for the years ended December 31, 2017 and 2016, respectively.

DUET PARTNERS IN HEALTH & AGING

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with summarized comparative totals as of December 31, 2016)

(1) Nature of operations and summary of significant accounting policies (continued)

Cash & equivalents - Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at cash institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). From time to time, these deposits may exceed the insurance amounts provided by the FDIC.

Investments – The Organization reports its investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. Investments are exposed to various risks, such as interest rate, market, and credit risks.

Contributions receivable - Unconditional promises to give (pledges) are recognized as revenues in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to contributions receivable. At December 31, 2017, contributions receivable of \$192,710 were due in less than one year and \$90,770 is due in one to five years. At December 31, 2016, contributions receivable of \$243,121 were due in less than one year and \$90,000 is due in one to five years. The Organization has determined that any discount on the amount due in future years is immaterial. At December 31, 2017 and 2016, all contributions receivable are deemed to be fully collectible by management. Accordingly, no discount or allowance was recorded in the accompanying financial statements.

Accounts receivable – Accounts receivable consist primarily of amounts due from local governmental organizations and other granting agencies under fee for service contracts. As a result, the Organization is exposed to certain credit risks. The Organization manages its risk by regularly reviewing its accounts and by providing appropriate allowances for doubtful accounts. Contracts receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to contracts receivable. At December 31, 2017 and 2016, all contracts receivable were due in less than one year and are deemed to be fully collectible by management. Accordingly, no allowance was recorded in the accompanying financial statements.

Property and equipment and related depreciation - Purchased property and equipment is valued at cost and donated property and equipment is recorded at the fair value at the date of the gift to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$500 are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over estimated useful lives of 3 to 12 years.

DUET PARTNERS IN HEALTH & AGING
NOTES TO FINANCIAL STATEMENTS
December 31, 2017
(with summarized comparative totals as of December 31, 2016)

(1) Nature of operations and summary of significant accounting policies (continued)

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Impairment of long-lived assets – the Organization accounts for long-lived assets in accordance with the provisions of *Accounting for the Impairment of Long-Lived Assets*. This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows to be expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no long-lived assets have any impairment of value.

Contributions – The Organization recognizes contributions and support in accordance with *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the contribution is made, is shown as unrestricted support.

Donated materials and services - Donated facilities, materials and services are recorded at their estimated values if they enhance the Organization's nonfinancial assets or require specialized skills that the Organization would normally purchase, if not provided by donation. During the years ended December 31, 2017 and 2016, the Organization recognized \$48,600 in donated facility and occupancy costs from Church of the Beatitudes. The Organization utilizes and depends on the services of volunteers to perform a variety of tasks that assist the Organization with specific programs and fundraising. No amounts have been reflected in the financial statements for these services, since they did not meet the recognition requirements under generally accepted accounting standards.

Governmental grant revenue – governmental grant revenue is comprised of contract revenue and fee for services revenue provided by local governmental and other granting agencies, that have passed through governmental awards, to the Organization. The Organization recognizes governmental grant revenue as earned when services are rendered or contractual obligations are met under the grant contract. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the contract.

DUET PARTNERS IN HEALTH & AGING
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with summarized comparative totals as of December 31, 2016)

(1) Nature of operations and summary of significant accounting policies (continued)

Functional allocation of expenses - The costs of providing programs and other activities have been presented on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the program and supporting services benefited based on management's estimate of time and effort devoted to each activity.

Income tax status - the Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Organization has adopted ASC 740-10, *Accounting for Uncertainty in Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The tax years ended 2014, 2015, and 2016 are still open to audit for both federal and state purposes. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; its group exemption; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined there is no impact on the accompanying financial statements related to the adoption of this standard.

Subsequent events - the Organization evaluated subsequent events after the statement of financial position date of December 31, 2017 through November 8, 2018, which was the date the Organization's financial statements were available to be issued. No conditions were noted, that did not exist as of December 31, 2017, but arose subsequent to that date.

(2) Investments and fair value measurements

The Organization's investments at December 31, 2016 and through August 18, 2017 are comprised primarily of a liquid cash account and "units of participation" representing the value of investment funds managed by United Church Funds (UCF). The UCF funds represent donor and board-designated amounts set aside in prior years for the purpose of providing an operating reserve as well as an income stream for annual operations. Beginning on August 17, 2017 investments are managed by an unrelated third party investment brokerage company. The Organization also owns shares of real estate investment trusts.

Investment return consists of the following:

	2017	2016
Interest and dividends	\$ 13,610	\$ 11,096
Investment fees and charges	-	-
Net realized gains & losses	-	-
Net unrealized gains & losses	99,302	37,233
	\$ 112,912	\$ 48,329

DUET PARTNERS IN HEALTH & AGING
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with summarized comparative totals as of December 31, 2016)

(2) Investments and fair value measurements (continued)

The Organization has adopted FASB ASC 820, *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an “exit price”) on the measurement date in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants (with no compulsion to buy or sell). Based on the standard *accounting for fair values of investments*, the Organization has set up a valuation framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.)
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

For assets and liabilities measured at fair value on a recurring basis, the fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based upon the lowest level input that is significant to the fair value measurement in its entirety.

The following table summarizes the valuation of investments in accordance with the fair value hierarchy:

	2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US equity exchange traded fund	\$ 276,696	\$ -	\$ -	\$ 276,696
Foreign equity exchange traded fund	135,540	-	-	135,540
US bond exchange traded fund	176,899	-	-	176,899
Real estate investment trust exchange traded fund	63,231	-	-	63,231
Real estate investment trust shares	-	5,973	-	5,973
Cash & equivalents	20,652	-	-	20,652
	<u>\$ 673,018</u>	<u>\$ 5,973</u>	<u>\$ -</u>	<u>\$ 678,991</u>

DUET PARTNERS IN HEALTH & AGING
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

(with summarized comparative totals as of December 31, 2016)

(2) Investments and fair value measurements (continued)

	2016			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Equity mutual fund (participation units)	\$ -	\$ 177,582	\$ -	\$ 177,582
Balanced mutual fund (participation units)	-	535,766	-	535,766
Cash & equivalents fund (participation units)	-	6,755	-	6,755
Real estate investment trust shares	-	5,973	-	5,973
	\$ -	\$ 726,076	\$ -	\$ 726,076

(3) Property and equipment

Property and equipment consists of the following:

Cost or donated value:

Equipment

Accumulated depreciation

Net property and equipment

2017	2016
\$ 564,495	\$ 281,514
(216,354)	(205,681)
\$ 348,141	\$ 75,833

For the year ended December 31, 2017 and 2016, depreciation expense charged to operations was \$10,673 and \$2,715, respectively.

(4) Temporarily restricted net assets

Temporarily restricted net assets consists of the following:

	2017	2016
Purpose restrictions:		
Endowment earnings	\$ 193,269	\$ 39,708
Caregiver services	74,050	123,474
Grandparents raising grandchildren	55,000	27,859
Time restrictions		
Contributions receivable	283,480	333,121
Total	\$ 605,799	\$ 524,162

(5) Permanently restricted net assets and endowment

The Organization received certain contributions permanently restricted to its endowment fund. The earnings on these funds are temporarily restricted until appropriated or expended by the board. The board of directors has also designated certain contributions and other amounts to function as an endowment, which are included in the unrestricted, board-designated net assets on the accompanying statement of financial position. As required by generally accepted accounting principles, net assets associated with the endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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(with summarized comparative totals as of December 31, 2016)

(5) Permanently restricted net assets and endowment (continued)

The board of directors of the Organization has interpreted the version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) enacted by Arizona as requiring the preservation of the fair value of the original donation as of the donation 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. 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.

The board-designated endowment funds may be reclassified to or from the endowment at any time under the direction of the board or management. The Organization follows FASB ASC 958-205 with respect to fund restrictions.

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

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Changes in Endowment net assets for the year ended December 31, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment investments, beginning of year	\$ 502,684	\$ 39,708	\$ 166,200	\$ 708,592
Net realized & unrealized gains (losses)	(128,173)	227,475	-	99,302
Interest income	7,528	6,085	-	13,613
Contributions	-	-	-	-
Withdrawals	-	(80,000)	-	(80,000)
Amounts appropriated for expenditure	-	-	-	-
Total	<u>\$ 382,039</u>	<u>\$ 193,268</u>	<u>\$ 166,200</u>	<u>\$ 741,507</u>

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(with summarized comparative totals as of December 31, 2016)

(5) Permanently restricted net assets and endowment (continued)

Changes in Endowment net assets for the year ended December 31, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment investments, beginning of year	\$ 468,901	\$ 25,869	\$ 166,200	\$ 660,970
Net realized & unrealized gains (losses)	26,119	10,699	-	36,818
Interest income	7,664	3,140	-	10,804
Contributions	-	-	-	-
Withdrawals	-	-	-	-
Amounts appropriated for expenditure	-	-	-	-
Total	<u>\$ 502,684</u>	<u>\$ 39,708</u>	<u>\$ 166,200</u>	<u>\$ 708,592</u>

The fundamental investment objectives for investments are to maximize return with an acceptable level of risk and to diversify holdings and asset classes to reduce risk and enhance returns while maintaining a long-term investment horizon. The Organization selects funds from United Church Funds, which consist of approximately two-thirds equities and one-third US government and investment grade corporate bonds. Performance of investments is reviewed at least annually by the board and its finance committee in order to meet its objectives.

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 the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk. The Organization's spending and investment policies work together to achieve this objective. The Organization's annual appropriations are at the discretion of the Board unless specific instructions were provided by the endowment donors. The current spending policy is 6% of the year-end endowment balance. The Organization's adopted policy also allows endowment funds to be removed from its investment accounts and reclassified, with the provision that permanently restricted funds will not be spent. During the years ended December 31, 2017 and 2016, the board did not appropriate or expend any of the donor-restricted portion of the endowment. At December 31, 2017 and 2016, the Organization had a total of \$193,268 and \$39,709, respectively, in unappropriated investment earnings.

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. As of December 31, 2017 and 2016, the Organization had sufficient funds allocated to the endowment.

(6) Operating leases

The Organization leases its facility and certain equipment under operating lease agreements expiring in various years through 2025. The rental expense related to these leases is recorded on a straight-line basis over the lease term. The Organization rents office space from the Church of the Beatitudes on a month-to-month basis (also see Note 8).

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(6) Operating leases (continued)

Total rental expense was approximately \$31,600 and \$19,500 for the years ended December 31, 2017 and 2016, respectively. In the normal course of business, operating leases are generally renewed or replaced by other leases. Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year at December 31, 2017 are as follows:

<u>Years ended June 30,</u>	
2018	\$ 72,990
2019	123,132
2020	127,158
2021	127,524
2022	131,751
Thereafter	<u>318,420</u>
Total future minimum lease payments	\$ <u>900,975</u>

(7) Concentrations

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of investments. At December 31, 2017 and 2016, substantially all of the Organization's investments were held by the United Church Foundation, Inc. in UCF fund accounts. These funds are not subject to registration, regulation or reporting under federal and state securities laws, nor are they insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. The UCF is subject to annual financial statement audits. Management does not anticipate nonperformance by the UCF and believes that the Organization is not exposed to any significant risk.

Approximately 11% and 9% of the net revenue was from a single fee-for-service resource provider during the years ended December 31, 2017 and 2016, respectively.

(8) Related party transactions

The Organization was founded by the Church of the Beatitudes (the Church). Although the organizational bylaws require a minimum of five members of the board of directors of the Organization to be members of the Church, the Organization operates autonomously with its own board of directors.

The organization rents office space from the Church on a month-to-month basis. The Church requires a monthly payment at below market rates for the use of the Church facilities. During the years ended December 31, 2017 and 2016, the Organization paid \$24,000 and 10,800, respectively, to the Church. The Organization also recognized \$48,600 in donated occupancy costs, on the accompanying statement of activities, which represent the difference between the amount paid by the Organization and comparable market rental rates.

Beatitudes Campus provides certain accounting and administrative services to the organization. During the years ended December 31, 2017 and 2016, the organization paid the Campus \$735 and \$5,544, respectively, for these services.

At December 31, 2017 the majority of the investments are held with a single investment brokerage company and account for 41% of total assets.