

***HIGH HOPES, INC.***

**FINANCIAL STATEMENTS  
& INDEPENDENT AUDITORS' REPORT**

**AUGUST 31, 2017 and 2016**

**HIGH HOPES, INC.**

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# MULLINS CLEMMONS & MAYES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
High Hopes, Inc.:

We have audited the accompanying financial statements of High Hopes, Inc. (a nonprofit organization) as of August 31, 2017 and 2016, which comprise the statements of financial position as of August 31, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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 of 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 High Hopes, Inc. as of August 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Mullins C. Common & Mayer, PLLC*

Brentwood, Tennessee  
November 10, 2017

**HIGH HOPES, INC.****STATEMENTS OF FINANCIAL POSITION  
AUGUST 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 105,881	\$ 120,345
Unconditional promises to give, net	592,236	61,227
Accounts receivable, net	190,361	157,291
Total current assets	<u>888,478</u>	<u>338,863</u>
<b>OTHER ASSETS:</b>		
Long-term unconditional promises to give, net	1,174,271	100,000
Property and equipment, net	3,939,491	3,989,517
Total other assets	<u>5,113,762</u>	<u>4,089,517</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 6,002,240</u></u>	<u><u>\$ 4,428,380</u></u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES:</b>		
Cash collected in advance of tuition revenue earnings	76,931	78,914
Accounts payable	14,624	29,484
Accrued expenses	69,321	54,784
Obligation under capital lease - current portion	5,175	4,934
Mortgage note payable - current portion	-	23,903
Total current liabilities	<u>166,051</u>	<u>192,019</u>
<b>OTHER LIABILITIES:</b>		
Obligation under capital lease - noncurrent portion	3,588	8,764
Mortgage note payable - noncurrent portion	558,566	902,932
Total other liabilities	<u>562,154</u>	<u>911,696</u>
<b>TOTAL LIABILITIES</b>	<u>728,205</u>	<u>1,103,715</u>
<b>NET ASSETS:</b>		
Unrestricted	3,474,085	3,129,112
Temporarily restricted	1,799,950	195,553
Total net assets	<u>5,274,035</u>	<u>3,324,665</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 6,002,240</u></u>	<u><u>\$ 4,428,380</u></u>

**The accompanying notes are an integral part of the financial statements.**

**HIGH HOPES, INC.****STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED AUGUST 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT			
Contributions:			
United Way	\$ 2,296	\$ 58,012	\$ 60,308
Other	140,121	14,938	155,059
Therapy fees, net	1,382,407	-	1,382,407
Tuition and fees	867,911	54,755	922,666
Special events	372,458	2,703	375,161
In-kind contributions	122,331	-	122,331
Capital campaign	-	1,996,906	1,996,906
Other income	179	-	179
Total	<u>2,887,703</u>	<u>2,127,314</u>	<u>5,015,017</u>
Net assets released			
due to satisfaction of restrictions	<u>522,917</u>	<u>(522,917)</u>	<u>-</u>
Total revenues and support	<u>3,410,620</u>	<u>1,604,397</u>	<u>5,015,017</u>
EXPENSES:			
Program services	2,536,116	-	2,536,116
Management and general	262,781	-	262,781
Fundraising	266,750	-	266,750
Total expenses	<u>3,065,647</u>	<u>-</u>	<u>3,065,647</u>
CHANGE IN NET ASSETS	344,973	1,604,397	1,949,370
NET ASSETS:			
Beginning of year	<u>3,129,112</u>	<u>195,553</u>	<u>3,324,665</u>
End of year	<u>\$ 3,474,085</u>	<u>\$ 1,799,950</u>	<u>\$ 5,274,035</u>

**The accompanying notes are an integral part of the financial statements.**

**HIGH HOPES, INC.****STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED AUGUST 31, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
REVENUES AND SUPPORT			
Contributions:			
United Way	\$ 1,705	\$ 45,500	\$ 47,205
Other	222,996	55,413	278,409
Therapy fees, net	1,196,897	-	1,196,897
Tuition and fees	845,894	-	845,894
Special events	355,707	-	355,707
In-kind contributions	93,543	-	93,543
Capital campaign	-	282,595	282,595
Realized loss on investments	1,702	-	1,702
Total	2,718,444	383,508	3,101,952
Net assets released due to satisfaction of restrictions	313,557	(313,557)	-
Total revenues and support	3,032,001	69,951	3,101,952
EXPENSES:			
Program services	2,257,165	-	2,257,165
Management and general	229,097	-	229,097
Fundraising	230,437	-	230,437
Total expenses	2,716,699	-	2,716,699
CHANGE IN NET ASSETS	315,302	69,951	385,253
NET ASSETS:			
Beginning of year	2,813,810	125,602	2,939,412
End of year	\$ 3,129,112	\$ 195,553	\$ 3,324,665

**The accompanying notes are an integral part of the financial statements.**

**HIGH HOPES, INC.****STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,949,370	\$ 385,253
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	104,361	102,342
Change in discounts on unconditional promises to give	126,530	-
Provision for doubtful accounts	33,418	11,468
Net changes in operating assets and liabilities:		
Unconditional promises to give	(1,765,228)	(114,857)
Accounts receivable	(33,070)	(13,573)
Investments	-	272
Accounts payable and accrued liabilities	(323)	9,415
Tuition collected in advance of earnings	(1,983)	18,734
Net cash provided by operating activities	<u>413,075</u>	<u>399,054</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(54,335)</u>	<u>(45,963)</u>
Net cash used in investing activities	<u>(54,335)</u>	<u>(45,963)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayments on revolving line of credit	-	(44,856)
Payments on capital lease	(4,935)	(4,706)
Net repayments on mortgage note payable	<u>(368,269)</u>	<u>(335,330)</u>
Net cash used in financing activities	<u>(373,204)</u>	<u>(384,892)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(14,464)	(31,801)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>120,345</u>	<u>152,146</u>
End of year	<u>\$ 105,881</u>	<u>\$ 120,345</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 40,584</u>	<u>\$ 58,738</u>

**The accompanying notes are an integral part of the financial statements.**



HIGH HOPES, INC.

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2017**

	Program Services			Supporting Services			Total Functional Expenses
	Education	Therapy	Total Program Services	Management & General	Fundraising	Total Support Services	
Salaries	\$ 730,777	\$ 907,120	\$ 1,637,897	\$ 187,168	\$ 101,446	\$ 288,614	\$ 1,926,511
Payroll taxes	54,572	67,741	122,313	13,977	7,576	21,553	143,866
Employee benefits	37,432	46,464	83,896	9,587	5,196	14,783	98,679
Total salaries and related expenses	822,781	1,021,325	1,844,106	210,732	114,218	324,950	2,169,056
Advertising	2,178	2,703	4,881	558	302	860	5,741
Contractual services	-	137,205	137,205	-	-	-	137,205
Equipment maintenance	44,721	55,513	100,234	11,454	6,208	17,662	117,896
Insurance	10,471	12,998	23,469	2,682	1,454	4,136	27,605
Interest	14,540	18,049	32,589	3,724	2,018	5,742	38,331
Occupancy	5,594	6,944	12,538	1,433	777	2,210	14,748
Other	6,756	8,386	15,142	1,731	938	2,669	17,811
Postage	512	636	1,148	131	71	202	1,350
Professional services	16,786	20,837	37,623	4,299	2,330	6,629	44,252
Special events	-	-	-	-	44,841	44,841	44,841
Capital campaign	-	-	-	-	22,754	22,754	22,754
In-kind contributions	22,760	28,252	51,012	5,829	63,990	69,819	120,831
Supplies	23,325	129,332	152,657	1,391	-	1,391	154,048
Telephone	9,754	12,108	21,862	2,499	1,354	3,853	25,715
Training	169	1,674	1,843	6,179	-	6,179	8,022
Total expenses before depreciation and bad debts	980,347	1,455,962	2,436,309	252,642	261,255	513,897	2,950,206
Depreciation	39,587	49,140	88,727	10,139	5,495	15,634	104,361
Bad debts	-	11,080	11,080	-	-	-	11,080
Total expenses	<u>\$ 1,019,934</u>	<u>\$ 1,516,182</u>	<u>\$ 2,536,116</u>	<u>\$ 262,781</u>	<u>\$ 266,750</u>	<u>\$ 529,531</u>	<u>\$ 3,065,647</u>

The accompanying notes are an integral part of the financial statements.

HIGH HOPES, INC.

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2016**

	Program Services			Supporting Services			Total Functional Expenses
	Education	Therapy	Total Program Services	Management & General	Fundraising	Total Support Services	
Salaries	\$ 696,580	\$ 725,698	\$ 1,422,278	\$ 162,220	\$ 97,852	\$ 260,072	\$ 1,682,350
Payroll taxes	52,544	54,740	107,284	12,236	7,381	19,617	126,901
Employee benefits	37,891	39,475	77,366	8,824	5,323	14,147	91,513
Total salaries and related expenses	787,015	819,913	1,606,928	183,280	110,556	293,836	1,900,764
Advertising	1,954	2,036	3,990	455	275	730	4,720
Contractual services	-	126,187	126,187	-	-	-	126,187
Equipment maintenance	36,876	38,418	75,294	8,588	5,180	13,768	89,062
Insurance	10,012	10,430	20,442	2,332	1,406	3,738	24,180
Interest	23,725	24,717	48,442	5,525	3,333	8,858	57,300
Occupancy	4,140	4,313	8,453	964	582	1,546	9,999
Other	5,974	6,224	12,198	1,392	839	2,231	14,429
Postage	688	717	1,405	160	97	257	1,662
Professional services	16,416	17,102	33,518	3,823	2,306	6,129	39,647
Special events	-	-	-	-	68,099	68,099	68,099
Capital campaign	-	-	-	-	3,022	3,022	3,022
In-kind contributions	24,843	25,882	50,725	5,785	27,433	33,218	83,943
Supplies	17,794	116,824	134,618	1,353	-	1,353	135,971
Telephone	9,651	10,055	19,706	2,247	1,356	3,603	23,309
Training	250	3,111	3,361	3,325	-	3,325	6,686
Total expenses before depreciation and bad debts	939,338	1,205,929	2,145,267	219,229	224,484	443,713	2,588,980
Depreciation	42,375	44,146	86,521	9,868	5,953	15,821	102,342
Bad debts	1,800	23,577	25,377	-	-	-	25,377
Total expenses	<u>\$ 983,513</u>	<u>\$ 1,273,652</u>	<u>\$ 2,257,165</u>	<u>\$ 229,097</u>	<u>\$ 230,437</u>	<u>\$ 459,534</u>	<u>\$ 2,716,699</u>

The accompanying notes are an integral part of the financial statements.

## **HIGH HOPES, INC.**

### **NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2017 AND 2016**

#### **NOTE 1 – THE ENTITY**

High Hopes, Inc. (the "Organization") was organized in 1984. The Organization, located in Franklin, Tennessee, is an early intervention preschool and pediatric rehabilitation center which embraces the whole child with tools for learning and skills for life.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Accounting Periods**

All references to 2017 and 2016 in these financial statements refer to the years ended August 31, 2017 and 2016, respectively, unless otherwise noted.

##### **Basis of Presentation**

The accompanying financial statements were prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

##### **Financial Statement Presentation**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

**Unrestricted** – This class includes net assets that are not subject to any donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

**Temporarily Restricted** – This class includes net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently Restricted** – This class includes net assets subject to donor-imposed restrictions that require the assets to 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 any related investments for general or specific purposes. At August 31, 2017 and 2016, the Organization had no permanently restricted assets.

##### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all highly liquid unrestricted investments with an original maturity of three months or less to be cash and cash equivalents.

The Organization may, at times, maintain bank accounts whose balances exceed federally insured limits. However, the Organization has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

## **HIGH HOPES, INC.**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) AUGUST 31, 2017 AND 2016**

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Contributions and Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Promises to give are recorded at fair value. The fair value of promises to give, which are payable within one year, is generally considered to be the same as the net realizable value of the promises. The fair value of promises to give, which are payable over a period greater than one year, is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. For 2016, the Organization determined that the unamortized discount on the promises to give was insignificant to the financial statements taken as a whole. Accordingly, no discount was recorded. During 2017, the Organization launched a capital campaign and received unconditional promises to give payable over five years. At August 31, 2017, this discount rate was 4.78%. The discount is amortized on the straight-line basis over the promise period, with the discount amortization being recorded as a component of contributions.

The Organization uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

See Note 3 for further details related to promises to give.

##### **Net Tuition, Therapy and Other Service Fees**

Net tuition, therapy and other service fees are recorded at the estimated net realizable amounts from families, third-party payers and others for services rendered. Tuition, therapy and other service fees are recorded at the Organization's established rates with contractual adjustments deducted to arrive at applicable net fees.

Contractual adjustments represent the difference between the Organization's established rates and third-party payer payments. An allowance for estimated contractual adjustments is recorded during the period in which the services are provided and adjusted to actual when payments are received.

##### **Property and Equipment**

The Organization's policy is to capitalize office equipment exceeding \$1,000 individually which is recorded at cost at the date of purchase or fair value at the date of gift. Items below \$1,000 are expensed. Costs of maintenance and repairs are charged to expense as incurred. Depreciation expense is computed by using the straight-line method over the estimated useful lives of the related assets, which ranges from three to forty years.

See Note 5 for further details related to property and equipment.

## HIGH HOPES, INC.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) AUGUST 31, 2017 AND 2016

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Donated Materials and Services**

Donated materials and equipment, if any, are reflected as contributions in the accompanying statements at their estimated values at the date of receipt. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Additionally, a number of unpaid volunteers have made significant contributions of their time to assist in fund-raising and special projects. However, these services do not meet the requirements above and have not been recorded.

##### **Advertising Costs**

Advertising costs, which also include marketing and development, are expensed as incurred. Advertising costs were \$5,741 and \$4,720 for the years ended August 31, 2017 and 2016, respectively.

##### **Income Taxes**

The Organization is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code, and is not classified as a private foundation. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Organization files an annual information return (Form 990) with the U.S. government. At August 31, 2017, the Organization is no longer subject to U.S. tax examinations of these information returns by tax authorities for years before August 31, 2014.

##### **Program and Supporting Services**

The following program and supporting services are included in the accompanying financial statements.

**Program Services** - Includes activities carried out to fulfill the Organization's mission to provide an early intervention preschool and rehabilitation center for children with special needs in a traditional educational classroom with a concentration in physical, speech and occupational therapy.

**Management and General** - Includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program. Includes costs associated with providing coordination and articulation of the Organization's program strategy, business management, general record keeping, budgeting and related purposes.

**Fundraising** - Includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitation and creation and distribution of fundraising materials.

# HIGH HOPES, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) AUGUST 31, 2017 AND 2016

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Functional Allocation of Expenses

Expenses, which are directly related to a function, are charged to that function. Expenses that are related to more than one function are allocated to the applicable functions based upon various allocation methods in order to reflect the total cost of each function.

#### Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (the "ASU"), which affects all nonprofit organizations. The ASU significantly changes how not-for-profit organizations present net assets on the face of the financial statements, as well as requiring additional disclosures for expenses by nature and function and for the liquidity and availability of resources. The ASU is effective for annual financial statements for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. High Hopes, Inc. expects to adopt the provisions of the ASU in the financial statements for the fiscal year ending June 30, 2019. Management is currently assessing the impact that the adoption of the ASU will have on the financial statements.

#### Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between August 31, 2017 and November 10, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

### NOTE 3 – PROMISES TO GIVE

Unconditional promises to give consisted of the following at August 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unrestricted promises to give	\$ 1,852,033	\$ 129,067
Temporarily restricted promises to give	47,467	38,083
Gross promises to give	1,899,500	167,150
Allowance for uncollectible promises to give	(6,463)	(5,923)
Unamortized discount on promises to give	(126,530)	-
Net unconditional promises to give	1,766,507	161,227
Promises receivable due less than one year	(592,236)	61,227
Promises receivable due within one to five years	<u>\$ 1,174,271</u>	<u>\$ 100,000</u>

**HIGH HOPES, INC.****NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**AUGUST 31, 2017 AND 2016****NOTE 3 – PROMISES TO GIVE (CONTINUED)**

See Note 9 for further details related to the fair values of the Organization's promises to give.

At August 31, 2017 and 2016, the Organization had individual unrestricted promises to give which exceeded 10% of the gross unrestricted promises to give. The combined balances of those unrestricted promises totaled 75% and 85% of the gross unrestricted promises to give at August 31, 2017 and 2016, respectively.

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable are from families and third-party payers and are reported net of estimated contractual adjustments and allowances for bad debts. Third-party payers consist primarily of commercial insurance carriers. As of August 31, 2017 and 2016, accounts receivable consisted of the following:

	<u>2017</u>	<u>2016</u>
Accounts receivable from:		
Tuition	\$ 5,632	\$ 2,807
Therapy services	350,471	287,343
Other receivable	535	-
	<u>356,638</u>	<u>290,150</u>
Less:		
Allowance for contractual adjustments	(135,771)	(114,619)
Allowance for bad debts	(30,506)	(18,240)
Accounts receivable, net	<u>\$ 190,361</u>	<u>\$ 157,291</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at August 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Depreciable assets:		
Buildings	\$ 3,014,176	\$ 3,014,176
Furniture and fixtures	138,894	138,894
Computer and software	41,605	44,088
Equipment	17,205	15,705
Capital leases	20,003	20,003
Construction in progress	52,835	-
Total cost	<u>3,284,718</u>	<u>3,232,866</u>
Accumulated depreciation	<u>(411,449)</u>	<u>(309,571)</u>
Subtotal	2,873,269	2,923,295
Nondepreciable assets:		
Land	1,066,222	1,066,222
Property and equipment, net	<u>\$ 3,939,491</u>	<u>\$ 3,989,517</u>

# HIGH HOPES, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) AUGUST 31, 2017 AND 2016

### NOTE 6 – LINE OF CREDIT AND LONG TERM DEBT

The Organization had a line of credit with a financial institution, which matured on March 31, 2017. This line of credit bore interest at the Lender's base commercial rate plus 1.5 percentage points, but in no event would the annual interest rate be less than 4.75%. The maximum availability under this line of credit was \$125,000. At August 31, 2016 no amounts were drawn on the line of credit. The line of credit was not renewed upon maturity.

In 2017, the Organization secured another line of credit with a financial institution. This line of credit bears interest at the Lender's base commercial rate, but in no event will the annual interest rate be less than zero percent. The maximum availability under this line of credit is \$300,000. At August 31, 2017, no amounts were drawn on the line of credit. Any amounts drawn on this line of credit plus unpaid interest are due and payable on February 10, 2019. Accrued and unpaid interest is due and payable monthly beginning March 10, 2017.

The Organization had an installment mortgage note payable. Effective January 2015, the monthly principal and interest payments were \$8,174. In 2016, the Organization made substantial principal payments, and the lender agreed to recast the monthly payment. Beginning June 2016, the new monthly principal and interest payments were \$5,812. This note bore interest at a fixed annual rate of 4.99%. All unpaid principal and interest were repaid to the lender in 2017.

In 2017, the Organization obtained a construction loan related to the construction of additional classroom and therapy treatment space with a maximum borrowing availability of \$4,975,000. This note bears interest at a fixed annual rate of 4.78%. Thirty-seven monthly interest-only payments will begin on September 3, 2017. These payments will be computed based on the amount drawn on the construction loan at the annual interest rate of 4.78%. Forty-five monthly consecutive principal and interest payments will begin on November 3, 2020. This note expires on August 3, 2024, at which time the remaining unpaid principal balance and accrued interest will be due. The amount drawn on the construction loan at August 31, 2017 is \$558,566.

The construction loan payable is collateralized by a deed of trust on the Organization's real property. The line of credit is collateralized by substantially all other assets of the Organization.

Future maturities of long term debt based on the outstanding balance at August 31, 2017 are as follows:

Year ending August 31,:	
2018	\$ -
2019	-
2020	-
2021	286,480
2022	272,087
Thereafter	-
Total	<u>\$ 558,566</u>



## HIGH HOPES, INC.

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) AUGUST 31, 2017 AND 2016

#### NOTE 7 – LEASING ACTIVITIES

The Organization has a capital lease for certain office equipment. The related assets were included in the accompanying statements of financial position under property and equipment, net as of August 31, 2017 and 2016. Amortization expense related to the assets under the capital lease was \$5,001 for the years ended August 31, 2017 and 2016.

Future minimum lease payments on the non-cancelable capital lease are as follows:

Year ending August 31,:	
2018	\$ 5,479
2019	3,653
Total payments	<u>9,132</u>
Less amount representing interest	<u>(369)</u>
Present value of minimum lease payments	8,763
Current portion of capital lease obligation	<u>(5,175)</u>
Long-term portion of capital lease obligation	<u>\$ 3,588</u>

#### NOTE 8 – EMPLOYEE BENEFITS

The Organization offers medical, dental, vision and supplemental insurance plans to all eligible full-time employees. The costs of these plans to the Organization for the years ended August 31, 2017 and 2016 were \$76,844 and \$64,449, respectively.

The Organization offers a defined contribution 401(k) plan, the High Hopes, Inc. 401(k) Plan (the "Plan") to eligible employees. Eligible employees may elect to contribute a portion of their compensation to the Plan up to the maximum amount as described in Section 414 of the Internal Revenue Code. The Organization may make discretionary employer contributions, as determined by the Board of Directors. In both 2017 and 2016, the Organization made \$10,000 of discretionary employer contributions to the Plan.

#### NOTE 9 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Organization. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

# HIGH HOPES, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) AUGUST 31, 2017 AND 2016

### NOTE 9 – FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a schedule of the fair value hierarchy of the Organization's assets and liabilities that are recorded at fair value at August 31, 2017 and 2016:

		Fair Value Measurements Using:
	Fair Value	Significant Unobservable Inputs (Level 3)
<b>At August 31, 2017:</b>		
Unconditional promises to give	\$ 1,766,507	\$ 1,766,507
<b>At August 31, 2016:</b>		
Unconditional promises to give	\$ 161,227	\$ 161,227

*Level 3 Fair Value Measurements* - The fair value of promises to give, which are payable within one year, is generally considered to be the same as the net realizable value of the promises. The fair value of promises to give, which are payable over a period greater than one year, is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

The following table provides further details of the Level 3 fair value measurements for promises to give for the years ended August 31, 2017 and 2016:

	2017	2016
Balance, beginning of year	\$ 161,227	\$ 57,838
Total gains or losses (realized or unrealized) included in the statements of activities:		
Bad debt losses	(540)	-
Amortization of discount on long-term promises	(126,530)	-
Collection of promises to give	(400,006)	(283,704)
New promises to give	2,132,356	387,093
Balance, end of year	<u>\$ 1,766,507</u>	<u>\$ 161,227</u>

**HIGH HOPES, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**AUGUST 31, 2017 AND 2016**

**NOTE 10 – NET ASSETS**

Temporarily restricted net assets consisted of the following at August 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
For subsequent fiscal years:		
United Way	\$ 47,467	\$ 38,083
Capital campaign	1,714,040	110,300
For specific purposes:		
Scholarship fund	20,219	21,948
Fund development	2,703	19,778
Therapy outreach	3,287	4,219
Clinic training	5,750	1,225
Music Garden	4,484	-
Employee welfare	2,000	-
Total	<u>\$ 1,799,950</u>	<u>\$ 195,553</u>

Temporarily restricted net assets were released from donor restrictions during 2017 and 2016, as follows:

	<u>2017</u>	<u>2016</u>
For subsequent fiscal years:		
United Way	\$ 48,628	\$ 48,267
Capital campaign	393,166	191,156
For specific purposes:		
Scholarship fund	56,484	19,204
Strings and Stories	-	4,050
Miscellaneous grants	24,639	50,880
Total	<u>\$ 522,917</u>	<u>\$ 313,557</u>