Culpeper Wellness Foundation, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

DIXON HUGHES GOODMAN LLP

Table of Contents

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
Culpeper Wellness Foundation
Culpeper, Virginia

We have audited the accompanying consolidated financial statements of Culpeper Wellness Foundation, Inc. and Subsidiary which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

DIXON HUGHES GOODMAN LLP

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Culpeper Wellness Foundation, Inc. and Subsidiary as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Morgantown, West Virginia
May 31, 2018

Culpeper Wellness Foundation, Inc. and Subsidiary
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash	$ 550,779	$ 955,562
Accounts receivable, net	63,357	23,103
Pledges receivable, current	500,000	500,000
Prepaid expenses and other current assets	38,013	63,378
Total current assets	1,152,149	1,542,043
Pledges receivable, long-term	2,356,000	2,849,000
Investments	19,311,179	16,707,045
Property and equipment:		
Land and land improvements	2,541,174	2,522,042
Buildings and leasehold improvements	11,923,333	12,644,436
Equipment	4,861,920	3,941,925
Construction in progress	280,543	-
	19,606,970	19,108,403
Accumulated depreciation	(7,215,819)	(6,635,383)
Property and equipment, net	12,391,151	12,473,020
Goodwill, net	55,390	-
Total assets	$ 35,265,869	$ 33,571,108
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 87,050	$ 37,771
Current portion of annuity payable	2,450	2,450
Accrued expenses	106,733	158,903
Deferred revenue	18,043	9,367
Total current liabilities	214,276	208,491
Annuity payable	24,078	24,887
Total liabilities	238,354	233,378
Net assets:		
Unrestricted	32,171,515	29,988,730
Temporarily restricted	2,856,000	3,349,000
Total net assets	35,027,515	33,337,730
Total liabilities and net assets	$ 35,265,869	$ 33,571,108

See accompanying notes.

Culpeper Wellness Foundation, Inc. and Subsidiary
Consolidated Statements of Activities
For the year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and support:			
Membership dues	$ 1,492,471	$ -	$ 1,492,471
Ancillary revenue	479,476	-	479,476
Contributions	990,790	7,000	997,790
Special events	65,314	-	65,314
Investment income and gains	2,454,723	-	2,454,723
Loss on sale of assets	(2,303)	-	(2,303)
Rental income	749,722	-	749,722
Net assets released from restrictions	500,000	(500,000)	-
Total revenues, gains and support	6,730,193	(493,000)	6,237,193
Expenses:			
Program services	3,947,971	-	3,947,971
Management and general	336,713	-	336,713
Fundraising	27,919	-	27,919
Rental property	234,805	-	234,805
Total expenses	4,547,408	-	4,547,408
Change in net assets	2,182,785	(493,000)	1,689,785
Net assets, beginning of year	29,988,730	3,349,000	33,337,730
Net assets, end of year	$ 32,171,515	$ 2,856,000	$ 35,027,515

See accompanying notes.

	Unrestricted	Temporarily Restricted	Total
Revenues, gains and support:			
Membership dues	$ 1,466,146	$ -	$ 1,466,146
Ancillary revenue	414,741	-	414,741
Contributions	840,811	51,000	891,811
Special events	53,920	-	53,920
Investment income and gains	785,367	-	785,367
Loss on sale of assets	(27,193)	-	(27,193)
Rental income	719,821	-	719,821
Net assets released from restrictions	995,261	(995,261)	-
Total revenues, gains and support	5,248,874	(944,261)	4,304,613
Expenses:			
Program services	3,600,350	-	3,600,350
Management and general	477,348	-	477,348
Fundraising	27,841	-	27,841
Rental property	208,866	-	208,866
Total expenses	4,314,405	-	4,314,405
Change in net assets	934,469	(944,261)	(9,792)
Net assets, beginning of year	29,054,261	4,293,261	33,347,522
Net assets, end of year	$ 29,988,730	$ 3,349,000	$ 33,337,730

Culpeper Wellness Foundation, Inc. and Subsidiary
Consolidated Statements of Functional Expenses
For the year ended December 31, 2017

	Program Services	Management and General	Fundraising	Rental Property	Total
Personnel costs	$ 1,606,357	$ 187,748	$ -	$ 38,865	$ 1,832,970
Purchases and supplies	792,157	-	-	-	792,157
Depreciation and amortization	457,782	7,589	-	152,121	617,492
Occupancy	245,871	49,701	-	26,866	322,438
Contributions made	292,284	-	-	-	292,284
Utilities	162,184	5,837	-	-	168,021
Professional fees	94,016	26,087	-	1,164	121,267
Taxes and licenses	64,806	4,561	-	15,219	84,586
Marketing and promotion	42,263	12,002	27,919	-	82,184
Insurance	46,361	13,221	-	570	60,152
Office supplies and expense	88,975	23,369	-	-	112,344
Bank charges	33,072	1,217	-	-	34,289
Travel and conferences	10,741	3,371	-	-	14,112
Bad debt expense	7,948	-	-	-	7,948
Dues and subscriptions	2,890	1,909	-	-	4,799
Equipment rental	264	101	-	-	365
Total expenses	$ 3,947,971	$ 336,713	$ 27,919	$ 234,805	$ 4,547,408

Culpeper Wellness Foundation, Inc. and Subsidiary
Consolidated Statements of Functional Expenses
For the year ended December 31, 2016 **(Continued)**

	Program Services	Management and General	Fundraising	Rental Property	Total
Personnel costs	$ 1,560,294	$ 226,747	$ -	$ 34,248	$ 1,821,289
Purchases and supplies	647,334	-	-	-	647,334
Depreciation	390,047	19,429	-	144,895	554,371
Occupancy	200,028	63,743	-	12,866	276,637
Contributions made	265,277	-	-	-	265,277
Utilities	152,053	5,562	-	-	157,615
Professional fees	168,620	49,656	-	1,750	220,026
Taxes and licenses	56,580	116	-	14,388	71,084
Marketing and promotion	35,448	20,059	27,841	-	83,348
Insurance	56,334	14,543	-	719	71,596
Office supplies and expense	22,633	17,908	-	-	40,541
Bank charges	32,269	3,420	-	-	35,689
Travel and conferences	10,363	17,927	-	-	28,290
Bad debt expense	-	35,400	-	-	35,400
Dues and subscriptions	3,070	2,838	-	-	5,908
Total expenses	$ 3,600,350	$ 477,348	$ 27,841	$ 208,866	$ 4,314,405

Culpeper Wellness Foundation, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 1,689,785**	$ (9,792)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**617,492**	554,371
Loss on sale of assets	**2,303**	27,193
Realized and unrealized gain on investments	**(2,204,092)**	(576,822)
Change in fair value of split interest agreements	**1,641**	5,407
Change in assets and liabilities:		
Accounts and pledges receivable	**452,746**	490,826
Prepaid expenses and other current assets	**25,365**	(802)
Accounts payable	**49,279**	8,463
Accrued expenses	**(52,170)**	(6,641)
Deferred revenue	**8,676**	(8,378)
Net cash provided by operating activities	**591,025**	483,825
Cash flows from investing activities:		
Proceeds from sale of investments	**700,000**	881,614
Purchase of investments	**(1,100,042)**	(840,122)
Proceeds from sale of property and equipment	**12,700**	5,119
Purchase of property and equipment	**(606,016)**	(899,738)
Net cash used in investing activities	**(993,358)**	(853,127)
Cash flows from financing activities:		
Annuity payments	**(2,450)**	(2,450)
Payments on advances from affiliate, net	**-**	(33,903)
Net cash used in financing activities	**(2,450)**	(36,353)
Decrease in cash and cash equivalents	**(404,783)**	(405,655)
Cash and cash equivalents, beginning of year	**955,562**	1,361,217
Cash and cash equivalents, end of year	**$ 550,779**	$ 955,562

See accompanying notes.

Notes to Consolidated Financial Statements

1. Nature of the Organization and Summary of Significant Accounting Policies

Nature of organization

Culpeper Wellness Foundation, Inc. (CWF) is a not-for-profit organization supporting the communities in and around Culpeper, Virginia. CWF is the parent of Powell Wellness Center L.L.C. (PWC), operates the Culpeper Free Clinic, provides various community grant programs, and leases real estate to physicians and support operations and is referred to collectively, as the ("Organization").

The Organization receives support through wellness center memberships, donations from individuals, businesses, churches, and other organizations in the Culpeper area and through grants obtained from local governments, the United Way, and other charitable organizations.

Significant accounting policies are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of CWF and its wholly-owned subsidiary, PWC. All significant intercompany accounts and transactions are eliminated in consolidation.

Basis of accounting

The consolidated financial statements have been prepared on the accrual basis of accounting.

The Organization reports 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. The financial statements report amounts separately by class of net assets as follows:

Unrestricted net assets

The Organization's unrestricted net assets represent funds available for general operations and amounts designated for use at the discretion of the Organization's Board of Directors.

Temporarily restricted net assets

Temporarily restricted net assets represent resources received that are restricted by donor imposed stipulations that either expire by passage of time or can be satisfied by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets

Permanently restricted net assets represent assets received subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets at December 31, 2017 and 2016.

Support and revenue recognition

PWC membership revenue is recognized over the period during which the membership is active. Ancillary revenue is recognized at the point of sale or as services are rendered. Special event revenue is recognized in the period the event takes place. Rental income is recognized over the period facilities are available to tenants. Payments received in advance are deferred and recognized over the period to which they relate. Contributions are recognized as revenue when they are received or unconditionally pledged.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

The Organization reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Non-cash donations are recorded as support at their estimated fair value at the date of donations. Such donations are reported as unrestricted support unless the donor has restricted the donation for a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support.

Donated services and supplies

The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and would have been purchased if not contributed, are recorded at their fair values in the period received.

The Organization receives contributed medical services, including lab and diagnostic services, as well as professional medical volunteers who assist the Organization in providing health and welfare services. The volunteer services are provided primarily by medical doctors and nurses. During the year ended December 31, 2017, $42,668 was recorded related to donated services. During the year ended December 31, 2016, $76,626 of in-kind donated services were recognized.

The free clinic also receives donated diagnostic services as well as pharmaceuticals for distribution to patients, as prescribed. For the year ended December 31, 2017 and 2016, the value of donated pharmaceuticals and diagnostic services was approximately $667,000 and $500,000, respectively and is recorded as in-kind support in the accompanying consolidated statements of activities.

Cash and cash equivalents

Cash and cash equivalents consist of cash in banks and short-term debt instruments with original maturities of three-months or less. Cash and cash equivalents are stated at cost. The Organization maintains its cash in bank deposit accounts. Total uninsured cash balances at December 31, 2017 and 2016 were $298,066 and $597,682, respectively.

Accounts receivable and allowance for doubtful accounts

Accounts receivable consists primarily of member billings for the PWC and are recorded at the invoiced amount, net any estimated allowance for doubtful accounts. The allowance for doubtful accounts is the Organization’s best estimate of the amount of probable credit losses in the Organization’s existing accounts receivable. The Organization determines the allowance based on historical write-off experience and member specific data. The allowance for doubtful accounts was $2,200 at both December 31, 2017 and 2016.

Pledges receivable

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flow. Amortization of the resultant discount is recognized as contribution revenue. The need for an allowance for uncollectible pledges receivable is determined based on an evaluation of the collectability of individual promises. All pledges were considered fully collectible at December 31, 2017 and 2016; accordingly, no allowance for doubtful pledges receivable were recorded.

Inventories

Inventories consist primarily of apparel and snack items available for sale at PWC and are initially recorded at cost (if purchased), using the average cost method, or fair value at date of donation (if donated), and subsequently valued at the lower of cost or market. Inventory is included in prepaid expenses and other current assets on the consolidated statements of financial position.

Property and equipment

Property and equipment are stated at cost or fair value at the date of the donation. Depreciation and amortization are provided by the straight-line method based on estimated useful lives as follows:

Land improvements	10 years
Buildings	5 to 40 years
Leasehold improvements	8 to 15 years
Equipment	7 to 15 years

Depreciation expense was $615,582 and $554,371 for the years ended December 31, 2017 and 2016.

Goodwill

In September 2017, PWC purchased the business and assets of Culpeper Sport & Racquet Club for approximately $70,000 and renamed it Culpeper Sport & Fitness (CSF). CWF subsequently sold much of the equipment it acquired and the remaining purchase price was allocated to goodwill. The Organization adopted the provisions of Accounting Standards Update (ASU) No. 2014-02, Intangibles-Goodwill and Other (Topic 350): Accounting for Goodwill, which provides an alternative to accounting for goodwill for private companies. The alternative allows an entity to amortize goodwill over a period not to exceed 10 years. An entity that elects the alternative is also required to make an election to test goodwill for impairment at the entity level or the reporting unit level. Under the alternative, goodwill is tested for impairment only when a triggering event occurs or circumstances change that indicate that the fair value of the reporting unit may be less than its carrying amount. The Organization has elected to evaluate the potential impairment at the reporting unit level.

The goodwill is being amortized on a straight-line basis over 10 years, and amortization expense during the year ended December 31, 2017 was $1,910.

Advertising

Advertising expenses are charged to expense as incurred and are not material.

Functional allocation of expenses

Program, management and general, fundraising, and rental property costs have been summarized on a functional basis in the consolidated statement of functional expenses. Certain indirect costs have been allocated to programs and supporting services on the basis of the activity benefited.

Income tax status

CWF is exempt from federal income taxes under Code Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, CWF qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Code and has been classified as an organization that is not a private organization under Code Section 509(a)(2). PWC is a limited liability company that has not elected to be taxed as a Corporation under current Internal Revenue Service regulations. As such, PWC is a disregarded entity for federal income tax purposes and does not have to file an annual federal return. Rather, its tax results are reflected on the annual tax filings of its member as if the activities of PWC were activities of the member.

Management evaluated CWF's tax positions and determined that CWF has no uncertain tax positions that require adjustment to the consolidated financial statements at December 31, 2017 and 2016. CWF files Form 990, *Return of Organization Exempt from Income Tax*, annually with the United States Department of the Treasury.

Estimates and assumption

The preparation of consolidated 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU is intended to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The ASU should be applied retrospectively to all periods presented upon adoption. Upon adoption net assets will be reduced to two classes with and without donor restriction. Management is currently evaluating the remaining impact the adoption of this ASU will have on the Organization's financial statements. Accordingly, the overall impact of adoption on the financial statements is unknown at the present time.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of their classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the Organization's consolidated financial statements as the Organization has operating lease arrangements including where it is either the lessee or the lessor. The standard is effective on January 1, 2019, with early adoption permitted. The Organization is in the process of evaluating the impact of this new guidance.

Reclassifications

Certain amounts in the 2016 consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the 2017 consolidated financial statements. Such reclassifications did not impact the change in net assets for the year ended December 31, 2016.

Subsequent events

Subsequent events have been evaluated through May 31, 2018, which was the date the consolidated financial statements were available to be issued.

2. Pledges Receivable

Pledges receivable are carried at net realizable value at December 31, 2017 and 2016 and consisted of the following:

	2017	2016
Amounts due in:		
Less than one year	**$ 500,000**	$ 500,000
Amounts due in:		
One to five years	**$ 2,500,000**	$ 3,000,000
Less present value discount	**(144,000)**	(151,000)
	$ 2,356,000	$ 2,849,000

A discount rate of 1.5% was used to calculate the present value of the pledges receivable at December 31, 2017 and 2016.

3. Endowments

The Organization's endowment is a fund designated by the Board of Directors to function to act as an endowment. As required by generally accepted accounting principles, net assets associated with 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. There are no donor-imposed restrictions on this fund; therefore, it is classified in unrestricted net assets in the accompanying consolidated financial statements.

The Commonwealth of Virginia has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Directors of the Organization has interpreted the Commonwealth's enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of the 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.

In accordance with 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.

The Organization has adopted investment and spending policies for the Board Designated 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. The Organization's Board of Directors committed to hold the corpus of the endowment funds in perpetuity. The Organization distributes funds from the endowments as needed in accordance with its spending policy. The Organization has a policy of appropriating for distribution each year 4% of value of the endowment fund.

A summary of the activity in endowment funds for the year ended December 31, 2017 and 2016 is as follows:

Endowment Unrestricted Net Assets, December 31, 2015	$ 2,413,628
Investment return:	
Investment income	34,126
Net appreciation in fair value of investments	181,729
Total investment return	215,855
Appropriated for expenditures	(223,699)
Endowment Unrestricted Net Assets, December 31, 2016	$ 2,405,784
Investment return:	
Investment income	**58,480**
Net appreciation in fair value of investments	**309,622**
Total investment return	**368,102**
Contributions	**127,500**
Appropriated for expenditures	**(105,000)**
Endowment Unrestricted Net Assets, December 31, 2017	**$ 2,796,386**

4. Investments

Marketable securities at December 31, 2017 and 2016 carried at fair value as determined by quoted market prices are as follows:

	2017	2016
Money market funds and cash equivalents	**$ 656,497**	$ 1,192,030
Mutual funds	**13,974,491**	11,022,440
Fixed income	**3,480,924**	4,492,575
Government and agency bonds	**1,199,267**	-
	$ 19,311,179	$ 16,707,045

The following schedule summarizes investment income and gains, which are reported net of investment fees, in the consolidated statement of activities at December 31, 2017 and 2016:

	2017	2016
Interest and dividends, net of fees	$ **390,578**	$ 312,930
Net realized and unrealized gains on investments	**2,064,145**	472,437
	$ **2,454,723**	$ 785,367

5. Fair Value Measurements

Fair Value, as defined under Generally Accepted Accounting Principles (GAAP), is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. These tiers include:

Level 1: Observable inputs such as quoted prices in active markets.

Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

There have been no changes in the methodologies used at December 31, 2017 and 2016. The following is a description of the valuation methodologies used for instruments measured at fair value:

Money market funds and cash equivalents

Money market funds and other cash equivalents are recorded at cost which approximates fair value. Both observable and unobservable inputs are used to value these investments.

Mutual funds and fixed income securities

Mutual funds and fixed-income securities are valued using quoted market prices.

Government and agency bonds

Government and agency bonds are valued using model-based valuation techniques.

The following tables set forth by level within the fair value hierarchy the Organization's assets accounted for at fair value on a recurring basis as of December 31, 2017 and 2016.

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Totals
Money market funds and Cash equivalents	$ 656,497	$ -	$ -	$ 656,497
Mutual funds	13,974,491	-	-	13,974,491
Fixed Income Securities	3,480,924	-	-	3,480,924
Government and Agency Bonds	-	1,199,267	-	1,199,267
	$ 18,111,912	$ 1,199,267	$ -	$ 19,311,179

	Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Totals
Money market funds and Cash equivalents	$ 1,192,030	$ -	$ -	$ 1,192,030
Mutual funds	11,022,440	-	-	11,022,440
Fixed Income Securities	4,492,575	-	-	4,492,575
	$ 16,707,045	$ -	$ -	$ 16,707,045

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of a pledge from Novant Health UVA Health System Culpeper Medical Center as of December 31, 2017 and 2016. Due to the satisfaction of time restrictions as pledge payments were received, net assets of approximately $500,000 and $995,000 were released to meet charitable community wellness needs during the year ended December 31, 2017 and 2016, respectively.

7. Annuity Obligation

The Organization is a party to a gift annuity agreement with a donor requiring annual payments of $2,450. The recorded obligation represents the present value of expected payments over the donor’s remaining life expectancy measured according to IRS annuity tables using a discount rate of 6%.

8. Compensated Absences

Employees who have met length-of-service requirements (as defined by the Organization’s policies) earn compensatory leave. Employees may carry a maximum of 180 hours of compensatory leave. At termination or retirement, employees who have met separation-of-service requirements (as defined by the Organization’s policies) will be paid for compensatory leave balances, as follows: 100% of the first 50% of eligible hours and 50% of the remaining eligible hours. At December 31, 2017 and 2016, the Organization’s accrual for compensated absences was $30,871 and $44,453, respectively, and is included in accrued expenses in the accompanying consolidated statements of financial position.

9. Rental Income

The Organization is the lessor of various real estate properties under operating leases expiring in various years. In addition, PWC and CWF both lease property to a related party. Rental income for the year ended December 31, 2017 was approximately $750,000, of which approximately $495,000 was income from related parties. Rental income for the year ended December 31, 2016 was approximately $720,000, of which approximately $460,000 was related party income. There is also approximately $95,000 and $110,000 of in-kind rental income presented as a part of contributions in the accompanying consolidated statements of activities related to use of rental space the Organization donates to other non-profits at December 31, 2017 and 2016, respectively. Several of the Organization’s leases have various renewal options and escalating lease clauses.

Expected annual rental income on theses leases are as follows:

2018	$ 787,724
2019	580,190
2020	585,573
2021	597,482
2022	515,459
Thereafter	322,931
	$ 3,389,359

10. Related-Party Transactions

Throughout the year, the Organization reimburses certain expenses to Novant Health UVA Health System Culpeper Medical Center, which was formerly majority-owned by the Organization and is considered a related party. There is $412 outstanding for reimbursable expenses, which is included in accounts payable, as of December 31, 2017. Pledges receivable from Novant Health UVA Health System Culpeper Medical Center were $2,856,000 and $3,349,000 net of the pledge discount as of December 31, 2017 and 2016, respectively. The pledge is receivable in annual installments of $500,000 over 10 years. The pledge is to be used by the Organization, as it deems appropriate, to meet charitable community wellness needs. The pledge is more fully described in Note 2 and Note 6.

11. Operating Leases

Effective February 1, 2016, the Organization entered into a three-year lease agreement for office space in Culpeper, Virginia. The lease requires initial monthly rent of $2,735, increasing to $2,985 after six months; and provides for 2% increases in monthly rent at each anniversary date. The lease contains a renewal provision at the Organization's option for an additional two-year term.

The Organization also entered into a three-year lease agreement effective September 1, 2017 for CSF operations. The lease requires initial monthly payments of $6,134, with scheduled increases of approximately 4% at each anniversary date and an option for an additional two-year term.

Minimum lease payments for future years ending December 31 are as follows:

2018	$ 111,823
2019	80,758
2020	53,144
	$ 245,725

12. Defined Contribution Plan

The Organization has a defined contribution plan covering all employees who are over 21 years of age and have three months of service. In 2017, the Organization began to match employees' contributions based on a percentage of salary contributed by participants who have attained one year of service. Employee contributions are fully vested and employer contributions are 100% vested after one year of service. The employer match was not material in 2017.

DHG