ZEPF CENTER

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR’S REPORT

JUNE 30, 2018 AND 2017

CONTENTS

GILMORE JASION MAHLER, LTD
INNOVATIVE IDEAS. TRUSTED ADVICE.

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Zepf Center
Toledo, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Zepf Center (the Center), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and the *Financial and Compliance Audit Guidelines for Community Mental Health Programs and Agencies Receiving State and Federal Funding*, issued by the Ohio Department of Mental Health and Addiction Services (OhioMHAS Guidelines). Those standards and the OhioMHAS Guidelines 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.

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Opinion

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

Other Matters

The accompanying financial statements are those of the Center only and not the consolidated results of the Center and its housing facilities, the primary reporting entity. The consolidated financial statements of the Center and its affiliates have been separately issued as the financial statements of the primary reporting entity.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2018 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Gilmore Jasion Mahler, LTD

Maumee, Ohio
October 18, 2018

ZEPF CENTER
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,565,528	$ 8,627,550
Public support and program service fee receivables, net of allowance for doubtful accounts of $153,111 in 2018 and $181,082 in 2017	5,446,311	4,296,336
Receivables from affiliates, net of allowance for doubtful accounts of $0 in 2018 and 2017	9,115	40,444
Investments	3,858,147	2,614,833
Prepaid expenses and other	344,406	217,346
Total current assets	17,223,507	15,796,509
Property and equipment		
Land	307,965	277,235
Buildings and buildings improvements	6,825,160	6,484,955
Furniture and equipment	1,443,838	1,173,270
Vehicles	236,192	236,192
Construction in progress	237,715	421,490
Total cost	9,050,870	8,593,142
Less accumulated depreciation	3,986,141	3,861,810
Net property and equipment	5,064,729	4,731,332
Other assets - designated		
Cash - board designated	243,603	243,555
Investments - designated	433,154	0
Total assets	$ 22,964,993	$ 20,771,396
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	$ 9,996	$ 9,996
Accounts payable	376,751	869,152
Accrued payroll costs	1,742,571	1,707,492
Deferred income	63,259	0
Total current liabilities	2,192,577	2,586,640
Long-term debt, net of current portion		
Employee deferred compensation	20,856	0
Long-term debt, less current maturities	10,886	20,882
Total liabilities	2,224,319	2,607,522
Net assets		
Unrestricted:		
Undesignated	20,497,071	17,920,319
Board designated	243,603	243,555
Total net assets	20,740,674	18,163,874
Total liabilities and net assets	$ 22,964,993	$ 20,771,396

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

ZEPF CENTER
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2018 and 2017

	2018	2017
Public support		
Mental Health and Recovery Services Board of Lucas County	$ 4,666,820	$ 5,337,667
LCDJFS	171,567	162,209
Victims of Crime Act grant	116,527	128,316
UTMC MEDTAPP	0	100,000
Lucas County Children Services	109,364	0
Central Pharmacy	54,391	22,153
Total public support	5,118,669	5,750,345
Program service fees		
Mental Health and Recovery Services Board of Lucas County (Medicaid-Title XIX fees)	32,637,037	32,569,067
Job placement and coaching	4,361,242	4,032,542
Rehabilitation Services Commission	246,642	430,335
Medicare	394,372	345,804
Federal prison grant	196,965	233,177
Private insurance	311,170	194,252
Alternatives	41,630	70,786
Direct client fees	242,188	10,312
Other	829,176	488,724
Total program service fees	39,260,422	38,374,999
Total public support and program service fees	44,379,091	44,125,344
Expenses		
Program services	36,551,776	35,234,921
Management and general	5,337,232	4,454,464
Total expenses	41,889,008	39,689,385
Operating income	2,490,083	4,435,959
Other income (expense)		
Impairment loss	0	(398,743)
Interest and dividend income	122,382	101,668
Gain (loss) on sale of property and equipment	(3,078)	7,501
Unrealized and realized loss on investments	(32,587)	(95,815)
Total other income (expense)	86,717	(385,389)
Change in net assets	2,576,800	4,050,570
Net assets beginning of year	18,163,874	14,113,304
Net assets end of year	$ 20,740,674	$ 18,163,874

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

ZEPF CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2018 and 2017

	2018		
	Program Services	Management and General	Total
Salaries and wages	$ 20,719,523	$ 2,910,814	$ 23,630,337
Payroll taxes	1,468,717	256,329	1,725,046
Retirement plan	578,603	85,795	664,398
Health insurance	3,892,451	535,794	4,428,245
Total salaries and related expenses	26,659,294	3,788,732	30,448,026
Contract services	1,977,808	261,133	2,238,941
Medication	294,330	0	294,330
Vehicle expense	387,281	25,922	413,203
Liability and general insurance	298,389	22,713	321,102
Building maintenance	613,746	81,446	695,192
Management information systems	534,396	96,908	631,304
Miscellaneous	303,019	48,927	351,946
Rent	200,444	0	200,444
Professional fees	10,280	532,876	543,156
Office supplies	150,161	47,806	197,967
Telephone	288,382	36,176	324,558
Workers' compensation insurance	232,490	12,915	245,405
Travel	86,430	34,729	121,159
Program and production supplies	1,925,005	26,927	1,951,932
Staff development	52,579	54,391	106,970
Client food and supplies	368,851	33,821	402,672
Utilities	348,762	43,854	392,616
Equipment repair	25,859	2,336	28,195
Equipment rentals	90,159	8,114	98,273
Dues and subscriptions	36,678	33,727	70,405
Printing and publications	116,781	81,433	198,214
Postage	18,405	2,928	21,333
Housing assistance	90,170	250	90,420
Employee recruitment	14,339	11,358	25,697
Grant expense	6,957	13	6,970
Contribution to affiliate	882,646	0	882,646
Bad debt expense	160,692	387	161,079
Total expenses before depreciation	36,174,333	5,289,822	41,464,155
Depreciation	377,443	47,410	424,853
Total expenses	$ 36,551,776	$ 5,337,232	$ 41,889,008

2017		
Program Services	Management and General	Total
$ 19,722,073	$ 2,548,242	$ 22,270,315
1,411,670	210,994	1,622,664
605,443	84,258	689,701
4,018,984	465,035	4,484,019
25,758,170	3,308,529	29,066,699
2,360,379	282,889	2,643,268
272,470	0	272,470
308,015	31,283	339,298
414,146	59,305	473,451
677,693	85,773	763,466
554,786	34,709	589,495
172,456	79,808	252,264
191,824	1,002	192,826
22,820	77,788	100,608
155,939	62,387	218,326
284,423	37,491	321,914
241,431	11,457	252,888
130,106	56,182	186,288
1,302,157	42,602	1,344,759
76,091	27,555	103,646
280,502	57,719	338,221
343,365	46,738	390,103
67,348	7,596	74,944
52,598	3,288	55,886
27,454	38,300	65,754
99,869	51,545	151,414
20,999	4,683	25,682
90,022	281	90,303
475	740	1,215
15,274	46	15,320
926,826	0	926,826
44,310	0	44,310
34,891,948	4,409,696	39,301,644
342,973	44,768	387,741
$ 35,234,921	$ 4,454,464	$ 39,689,385

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

ZEPF CENTER
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 2,576,800	$ 4,050,570
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	424,853	387,741
(Gain) loss on sale of property and equipment	3,078	(7,501)
Impairment loss	0	398,743
Amortization of mortgage payable	(9,996)	(9,996)
Bad debt expense	161,079	44,310
Unrealized and realized loss on investments	29,717	95,815
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Public support and program service fee receivables	(1,311,054)	(1,187,755)
Receivables from affiliates	31,329	(22,230)
Prepaid expenses and other	(127,060)	(35,880)
Increase (decrease) in:		
Accounts payable	(121,229)	97,219
Accrued payroll costs	35,079	225,078
Employee deferred compensation	20,856	0
Other accrued expenses and liabilities	63,259	0
Net cash provided by operating activities	1,776,711	4,036,114
Cash flows from investing activities		
Purchase of investments	(2,548,492)	(2,693,405)
Proceeds from sale of investments	842,307	390,836
Purchase of property, equipment, and construction in process	(1,132,500)	(352,395)
Proceeds from sale of property and equipment	0	12,500
Net cash used in investing activities	(2,838,685)	(2,642,464)
Net increase (decrease) in cash and cash equivalents	(1,061,974)	1,393,650
Cash and cash equivalents at beginning of year	8,871,105	7,477,455
Cash and cash equivalents at end of year	$ 7,809,131	$ 8,871,105
Non-cash investing activities		
Property and equipment in accounts payable	$ 0	$ 371,172

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

Note 1–Organization and operations

Zepf Center (the Center) is a nonprofit private corporation providing mental health, alcohol/drug addiction, and job placement and coaching services to residents in Northwest Ohio. The accompanying financial statements are those of the Center only and not the consolidated results of the Center and its housing facilities, the primary reporting entity. The consolidated financial statements of the Center and its affiliates have been separately issued as the financial statements of the primary reporting entity.

Note 2–Summary of significant accounting and reporting policies

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting. The accrual basis provides for the recognition of revenues when earned and of expenses when incurred.

Financial statement presentation

The accompanying financial statement presentation follows the recommendation of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Financial Statements of Not-for-Profit Organizations,* to be in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Under this standard, the Center is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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, temporarily restricted net assets are reclassified to unrestricted net assets.

Cash and cash equivalents

The Center considers financial instruments with original maturities of 90 days or less to be cash equivalents. Cash balances were held in a financial institution and at times these deposits exceed federally insured limits. However, management monitors the soundness of these financial institutions and believes the risk of loss is negligible.

Public support and program service fee receivables

Revenue received under contracts with government agencies and program service fees are recorded in the year the related services are rendered. A significant portion of support is provided by federal, state, and local funds passed through the Mental Health and Recovery Services Board of Lucas County (the Board). The State of Ohio funding passes to the Board and is electronically remitted directly from the State of Ohio. The receivables are net of allowance for doubtful accounts. The allowance for doubtful accounts have been established based on a review of the overdue receivables outstanding and use of knowledge related to third party payor reimbursement methodology.

Note 2–Summary of significant accounting and reporting policies–continued

Investment securities

Investment securities are reported at fair value, which is based on the valuation methods discussed in Note 5 for each security. Securities acquired by gift or bequest are recorded at fair market value on the date of receipt, and securities purchased are recorded at fair value. If the entire security is not sold the gains or losses on sales of investment securities are based on the average cost of the security sold.

Property and equipment

The Center records property and equipment at cost, except for donated items which are recorded at fair value when donated, and depreciates these assets on a straight-line basis over their estimated useful lives. Buildings are depreciated over 25 years and building improvements are depreciated over periods ranging from 10 to 25 years. Furniture, equipment, and vehicles are depreciated over periods ranging from 3 to 7 years. Leasehold improvements are depreciated over the remaining life of the related lease. The Center capitalizes assets with a cost over $5,000.

Unrestricted net assets

Unrestricted net assets consist of all the resources and obligations related to the daily operations of the Center. The operating budget is approved and operating results are reviewed by the Board of Trustees. The Center's Board of Trustees has designated certain monies to be used to maintain and enhance facilities in order to provide the most benefit to the community.

Temporary restricted net assets

Temporary restricted net assets contain funding sources or donor-imposed restrictions that permit spending as specified. The restrictions are satisfied either by the passage of time or the actions of the Center. The Center believes it has no temporary restricted net assets.

Permanently restricted net assets

Permanently restricted net assets contain funding sources or donor-imposed restrictions that stipulate that resources be maintained permanently for a specified purpose. The Center believes it has no permanently restricted net assets.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2–Summary of significant accounting and reporting policies–continued

Collective bargaining agreement

Certain employees of the Center are covered under two separate collective bargaining agreements with District 1199/SEIU, the Health Care and Social Services Union, AFL-CIO. The current contracts expire June 30, 2019.

Functional allocation of expenses

In the statements of functional expenses, salaries and related expenses are charged to the program and supporting services on the basis of actual or estimated time devoted to these activities. Other expenses have been allocated based on actual costs and methods determined by management.

Income taxes

The Center is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is classified as other than a private foundation.

Management of the Center is required to determine whether a tax position of the Center is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Management of the Center is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months. However, management's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, new tax laws, regulations, and administrative interpretations (including relevant court decisions).

New accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Center has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

Note 2–Summary of significant accounting and reporting policies–continued

New accounting pronouncements–continued

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 will require that a lessee recognize assets and liabilities on the statement of financial position for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. Recognition and presentation of expenses will depend on the classification of the lease as either finance or operating. ASU 2016-02 will also require quantitative and qualitative disclosures to supplement the amounts recorded in the financial statements to afford better understanding of the Center's leasing activities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted and is to be applied retrospectively. The Center is currently evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

On August 18, 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves 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. Among other changes, ASU 2016-14 replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective on a retrospective basis for annual reporting periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Center is currently evaluating the impact the adoption of this guidance will have on its financial statements and related disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18). ASU 2016-18 addresses diversity in practice that exists in the classification and presentation of changes in restricted cash and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018 with early adoption permitted and is to be applied retrospectively. The Center is currently evaluating the effect that ASU 2016-18 will have on its financial statements but does not expect the adoption of ASU 2016-18 to have a material impact on its financial statements.

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15), to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures requirement. The amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation for each annual and interim reporting period, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued).

Note 2–Summary of significant accounting and reporting policies–continued

New accounting pronouncements–continued

ASU 2014-15 is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. ASU 2014-15 has been adopted by the Center for the year ended June 30, 2018 and the adoption did not have a material impact on its financial statements and related disclosures.

Subsequent events

The Center has evaluated all events subsequent to the statement of financial position date of June 30, 2018, through October 18, 2018, which is the date these financial statements were ready to be issued, and have determined that there are no subsequent events that require disclosure.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on previously reported results or net assets.

Note 3–Public support and program service fee receivables

Public support and program service fee receivables consisted of the following as of June 30:

	2018	2017
Mental Health and Recovery Services Board of Lucas County	$ 3,625,969	$ 2,444,153
Ohio and Lucas County Department of Job and Family Services	966,357	1,243,757
Medicare	143,743	92,696
Private insurance	127,403	132,509
Client fees	181,007	119,562
Other	554,943	444,741
Total	5,599,422	4,477,418
Less allowance for doubtful accounts	153,111	181,082
Net public support and program service fee receivables	$ 5,446,311	$ 4,296,336

Note 4–Transactions with affiliates

The Center has sponsored and manages four separate legal entities that provide living facilities and programs for mentally ill persons referred from the Center's regular case load and the Board. One of the separate legal entities is a sole member of two Ohio LLC's that were organized to operate recovery housing units dedicated to individuals with substance abuse disorders. Amounts contributed from the Center to support the operations of the recovery housing totaled $852,646 and $926,826 for the period ended of June 30, 2018 and 2017, respectively, which can be found on the statement of functional expenses. As of June 30, 2018 and 2017, the amounts due to the Center from the above mentioned entities (net of allowance for doubtful accounts of $0 in 2018 and 2017) were $9,115 and $40,444, respectively. Management fees from the housing projects amounted to $17,931 and $17,676 in 2018 and 2017, respectively, and are included in other revenue on the accompanying statement of activities.

Note 5–Investments and fair value measurements

Investments of the Center are comprised of the following at June 30:

	2018		2017	
	Cost	Market	Cost	Market
Asset backed securities	$ 35,641	$ 33,109	$ 519,588	$ 502,207
Municipal bonds	1,053,478	993,842	1,065,588	1,027,253
Corporate bonds	99,500	91,109	99,500	92,028
Certificates of deposit	2,748,750	2,740,087	998,672	993,345
Total	$ 3,937,369	$ 3,858,147	$ 2,683,348	$ 2,614,833

Note 5–Investments and fair value measurements–continued

Investment income (loss) on the Center's investment portfolio is summarized as follows for the year ending June 30:

	2018	2017
Interest and dividend income	$ 81,958	$ 64,500
Net unrealized and realized loss on sale of investments	(32,587)	(95,815)
Net investment income (loss)	$ 49,371	$ (31,315)

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC Topic 820, *Fair Value Measurement*, are described as follows:

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

Level 2. Inputs to the valuation methodology include:

a. Quoted prices for similar assets or liabilities in active markets;

b. Quoted prices for identical or similar assets or liabilities in inactive markets;

c. Inputs other than quoted prices that are observable for the asset or liability;

d. 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.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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

Asset Backed Securities: Valued based on external pricing and spread indices and broker quotes.

Note 5–Investments and fair value measurements–continued

Mutual Funds – valued at quoted market prices, which represent the net asset value (NAV) of shares held by the Center at year end.

Corporate and Municipal Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Certificates of Deposit: Valued based on calculating the interest that has been accumulated plus the original investment.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies and assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth, by level, within the fair value hierarchy, the Center's assets carried at fair value:

	June 30, 2018			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Unrestricted investments				
Asset backed securities	$ 33,109	$ 0	$ 33,109	$ 0
Municipal bonds	993,842	0	993,842	0
Corporate bonds	91,109	0	91,109	0
Certificates of deposit	2,740,087	0	2,740,087	0
Total unrestricted investments	3,858,147	0	3,858,147	0
Designated investments				
Mutual funds	433,154	433,154		
Total	$ 4,291,301	$ 433,154	$ 3,858,147	$ 0

	June 30, 2017			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Asset backed securities	$ 502,207	$ 0	$ 502,207	$ 0
Municipal bonds	1,027,253	0	1,027,253	0
Corporate bonds	92,028	0	92,028	0
Certificates of deposit	993,345	0	993,345	0
Total	$ 2,614,833	$ 0	$ 2,614,833	$ 0

Note 6–Property and equipment

Upon dissolution, insolvency, or bankruptcy of the Center, and after the payment of creditors, all property and equipment purchased with the Board funds shall revert to the Board, and all property and equipment purchased with State of Ohio funds shall revert to the State of Ohio.

Note 7–Notes receivable

In 2015, the Center advanced $150,000 to Synap, Inc. (a software company) in a convertible promissory note. The promissory note accrued interest at a rate of 4.0% per annum. In the event of an Acquisition Event, as defined in the Promissory Note Agreement, all outstanding principal and accrued interest would automatically have been converted into shares of Synap, Inc. Conversion Stock. In 2016, the Center advanced an additional $225,000 to Synap, Inc. in two convertible promissory notes, holding similar terms as the original promissory note. Based on management's analysis, the notes receivable and interest receivable were written off as of June 30, 2017, and the Center recorded an impairment loss of $398,743 within the statements of activities.

Note 8–Accrued vacation

The Center accrued approximately $1,134,000 and $1,092,000 for vacation pay earned by employees as of June 30, 2018 and 2017, respectively. These amounts have been included in accrued payroll costs on the accompanying statement of financial position.

Note 9–Long-term debt and line of credit

Long-term debt consisted of the following at June 30:

	2018	2017
Mortgage note payable to Ohio Department of Alcohol and Drug Addiction Services, due August 2020, with an original amount of $250,000. Payments of $833 at 0% interest are forgiven monthly. Secured by the real estate and all fixtures and property. See below for more details.	$ 20,882	$ 30,878
Total long-term debt	20,882	30,878
Less current portion	9,996	9,996
Total long-term debt, net of current portion	$ 10,886	$ 20,882

Note 9–Long-term debt and line of credit – continued

Mortgage note payable

In July 1994, Compass Corporation for Recovery Services (CCRS) was awarded a Community Assistance Capital Improvements Grant from the State of Ohio in the amount of $250,000. On January 1, 2014, the Center acquired CCRS and assumed the mortgage note payable. The grant proceeds of $250,000 were recorded as a mortgage payable in accordance with the contract requirements. The mortgage is being amortized as capital improvements grant revenue over a 25 year term as long as the Center complies with the requirements contained in the agreement. If the Center defaults, the unforgiven balance would become due. There is no interest expense related to this mortgage. Capital improvements grant revenue of approximately $10,000 was recognized for 2018 and 2017 related to this mortgage. The building improvements are being depreciated over the remaining life of the related building.

Future maturities of long-term debt are as follows:

Year Ending June 30,		
2019	$	9,996
2020		9,996
2021		890
	$	20,882

The Center has a line of credit with a bank for borrowings up to $1,600,000 at June 30, 2018 and 2017, which expires in October 2018. The line of credit, which bears interest at the bank index rate (5.00% and 4.25% at June 30, 2018 and 2017, respectiveily), is secured by essentially all of the Center's assets. There was no outstanding balance under this line of credit as of June 30, 2018 or 2017.

Note 10–Operating leases

The Center has operating leases for certain office facilities, equipment and vehicles. Total rent expense was approximately $632,000 for 2018 and $571,000 for 2017. Commitments for future minimum required rental payments are as follows:

Year Ending June 30		
2019	$	213,999
2020		144,462
2021		38,861
2022		32,452
2023		30,316
Total	$	460,090

Note 11–Retirement plan

The Center sponsors a retirement savings plan, to which eligible employees can contribute a percentage of their gross pay. Employees are immediately eligible to contribute to the plan, but will have a one year eligibility period before contributions will be matched by the Center or receive the Center's discretionary contribution. The Center contributed up to 5% of participating employees' gross pay to the plan during 2018 and 2017. Expenses related to this plan for the year ended June 30, 2018 and 2017 were approximately $664,000 and $690,000, respectively.

Note 12–Defined compensation retirement plan

The Center adopted an Internal Revenue Code Section 457(b) and Section 457(f) nonqualified executive deferred compensation plan, (collectively the "Plans") effective December 2017, to provide retirement and benefits for its employees. Employees may make contributions to the Plans, subject to IRS limits. The Center makes discretionary contributions determined on an annual basis. Benefits under the 457(b) Plan are fully vested immediately upon joining the plan, while benefits under the 457(f) Plan are not vested until a period of service requirements is met. The liability associated with the Plans has been recorded at an amount equal to the vested balance to pay the benefits under the Plans. In 2018, the Center contributed $410,000 to the 457(f) compensation plan, in an amount equal to future unvested obligated payments. The obligated payments vest over a 2-3 year period as determined in participant plan agreements. As of June 30, 2018, $0 of the contributions made by the Center to the 457(f) Plan was vested to the participants.

The fair value of the assets designated to pay the benefits was $433,154 at June 30, 2018, and is classified as investments – designated on the accompanying Statements of Financial Position. Such assets are subject to the claims of general creditors of the Center.

Note 13–Contingencies

Grants

The Center receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2018.

Litigation and claims

In the normal course of operations, the Center may be subject to litigation and claims. While the outcome of the above matters cannot presently be determined, management believes that their ultimate resolution will not have a material adverse effect on the financial statements.