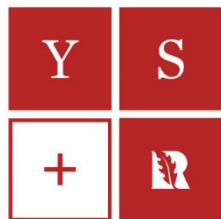

HOSPICE OF THE NORTH COAST

FINANCIAL STATEMENTS

Years Ended September 30, 2019 and 2018



YSR CPA GROUP, P.C.

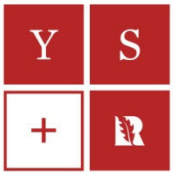
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HOSPICE OF THE NORTH COAST
FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee and Board of Directors
of the Hospice of the North Coast

We have audited the accompanying financial statements of the Hospice of the North Coast (a nonprofit organization), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospice of the North Coast as of September 30, 2019 and 2018, 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.

Emphasis of a Matter – Change in Accounting Principle

For the year ended September 30, 2019, the Organization adopted Financial Accounting Standards Board's (FASB) accounting standards update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, as described in Note 1. The changes required by the update have been applied retrospectively to all periods presented. Our opinion is not modified with respect to that matter.

YSR CPA Group, P.C.

Encinitas, California
January 28, 2020

HOSPICE OF THE NORTH COAST
STATEMENTS OF FINANCIAL POSITION
September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,033,281	\$ 2,942,859
Investments, short term	2,039,265	1,000,630
Accounts receivable, net of allowance for doubtful accounts of \$45,066 (2019) and \$28,010 (2018)	1,746,215	841,229
Pledge receivable	15,000	5,000
Resale shop inventory	60,874	59,132
Prepaid expenses	<u>134,201</u>	<u>136,072</u>
TOTAL CURRENT ASSETS	6,028,836	4,984,922
NONCURRENT ASSETS		
Investments, long term	5,032,225	3,812,897
Property and equipment, net of accumulated depreciation	2,541,363	2,624,284
Noncurrent pledge receivable	-	10,000
Other assets	<u>17,919</u>	<u>11,306</u>
TOTAL NONCURRENT ASSETS	<u>7,591,507</u>	<u>6,458,487</u>
TOTAL ASSETS	\$ <u><u>13,620,343</u></u>	\$ <u><u>11,443,409</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 147,912	\$ 193,521
Accrued salaries	236,799	188,733
Accrued compensated absences	204,071	167,757
Accrued expenses	5,251	2,783
Other liabilities	<u>660</u>	<u>1,875</u>
TOTAL CURRENT LIABILITIES	594,693	554,669
FORGIVABLE NOTE	<u>1,065,000</u>	<u>1,065,000</u>
TOTAL LIABILITIES	1,659,693	1,619,669
NET ASSETS		
Without donor restriction		
Board-designated capital reserve	453,945	421,073
Undesignated	11,193,984	9,135,347
With donor restriction	<u>312,721</u>	<u>267,320</u>
TOTAL NET ASSETS	<u>11,960,650</u>	<u>9,823,740</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u><u>13,620,343</u></u>	\$ <u><u>11,443,409</u></u>

See accompanying independent auditors' report and notes to financial statements.

HOSPICE OF THE NORTH COAST
STATEMENT OF ACTIVITIES
Year Ended September 30, 2019

	Without Donor restriction	With Donor Restriction	Total
SUPPORT AND REVENUE			
Net patient service revenue	\$ 9,598,232	\$ -	\$ 9,598,232
Contributions	209,989	360,851	570,840
Resale shop sales (net of \$47,508 of sales taxes) including resale shop contributions of \$621,383	1,244,508	-	1,244,508
Less: resale shop expenses	(975,445)	-	(975,445)
Special events, net direct expenses of \$10,386	5,132	-	5,132
Investment income	257,964	-	257,964
Net assets released from restrictions, satisfaction of program restrictions	315,450	(315,450)	-
TOTAL SUPPORT AND REVENUE	10,655,830	45,401	10,701,231
OPERATING EXPENSES			
Program services:			
Patient care	6,654,264	-	6,654,264
Bereavement	290,047	-	290,047
Volunteer	58,222	-	58,222
Community outreach	447,484	-	447,484
Supporting services:			
Administration	953,425	-	953,425
Fundraising	160,879	-	160,879
TOTAL OPERATING EXPENSES	8,564,321	-	8,564,321
INCREASE IN NET ASSETS	2,091,509	45,401	2,136,910
NET ASSETS, Beginning of Year	9,556,420	267,320	9,823,740
NET ASSETS, End of Year	\$ 11,647,929	\$ 312,721	\$ 11,960,650

See accompanying independent auditors' report and notes to financial statements.

HOSPICE OF THE NORTH COAST
STATEMENT OF ACTIVITIES
Year Ended September 30, 2018

	Without Donor restriction	With Donor Restriction	Total
SUPPORT AND REVENUE			
Net patient service revenue	\$ 8,056,731	\$ -	\$ 8,056,731
Contributions	298,579	271,193	569,772
Resale shop sales (net of \$47,022 of sales taxes) including resale shop contributions of \$606,988	1,200,477	-	1,200,477
Less: resale shop expenses	(936,319)	-	(936,319)
Special events, net direct expenses of \$8,839	(5,637)	-	(5,637)
Investment income	114,174	-	114,174
Interest	2,824	-	2,824
Loss on disposal of assets	(14,863)	-	(14,863)
Net assets released from restrictions, satisfaction of program restrictions	248,103	(248,103)	-
TOTAL SUPPORT AND REVENUE	8,964,069	23,090	8,987,159
OPERATING EXPENSES			
Program services:			
Patient care	5,603,122	-	5,603,122
Bereavement	251,542	-	251,542
Volunteer	122,118	-	122,118
Community outreach	353,822	-	353,822
Supporting services:			
Administration	902,128	-	902,128
Fundraising	152,320	-	152,320
TOTAL OPERATING EXPENSES	7,385,052	-	7,385,052
INCREASE IN NET ASSETS	1,579,017	23,090	1,602,107
NET ASSETS, Beginning of Year	7,977,403	244,230	8,221,633
NET ASSETS, End of Year	\$ 9,556,420	\$ 267,320	\$ 9,823,740

See accompanying independent auditors' report and notes to financial statements.

HOSPICE OF THE NORTH COAST
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2019

	Program Services				Supporting Services		Total
	Patient Care	Bereavement	Volunteer	Community Outreach	Administration	Fundraising	
Personnel costs:							
Salaries and wages	\$ 3,699,037	\$ 210,079	\$ 39,193	\$ 301,027	\$ 514,373	\$ 121,168	\$ 4,884,877
Payroll taxes	269,445	15,373	2,773	21,195	37,542	8,907	355,235
Employee benefits	592,141	32,005	6,401	51,208	76,812	12,802	771,369
Total personnel costs	4,560,623	257,457	48,367	373,430	628,727	142,877	6,011,481
Other costs and expenses							
Professional fees	266,089	160	-	-	27,317	-	293,566
Advertising and promotion	-	-	-	13,539	-	-	13,539
Office expenses	55,774	8,245	989	7,369	91,905	4,959	169,241
Information technology	74,978	425	-	17,235	92,299	1,440	186,377
Occupancy	157,405	817	577	2,994	12,136	600	174,529
Travel	124,270	1,776	484	7,133	5,229	1,025	139,917
Conferences and meetings	14,383	168	117	937	3,648	1,196	20,449
Depreciation	98,874	-	-	-	26,220	-	125,094
Insurance	7,055	-	-	-	42,907	-	49,962
Patient related care	91,789	-	-	-	-	-	91,789
Durable medical equipment	390,363	-	-	-	-	-	390,363
Skilled nursing facility	300,426	-	-	-	-	-	300,426
Medical supplies	105,968	-	-	-	-	-	105,968
Pharmacy	339,813	-	-	-	-	-	339,813
Other expenses	66,454	20,999	7,688	24,847	23,037	8,782	151,807
Total other costs and expenses	2,093,641	32,590	9,855	74,054	324,698	18,002	2,552,840
Total Expenses	\$ 6,654,264	\$ 290,047	\$ 58,222	\$ 447,484	\$ 953,425	\$ 160,879	\$ 8,564,321

See accompanying independent auditors' report and notes to financial statements.

HOSPICE OF THE NORTH COAST
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2018

	Program Services				Supporting Services		Total
	Patient Care	Bereavement	Volunteer	Community Outreach	Administration	Fundraising	
Personnel costs:							
Salaries and wages	\$ 3,100,317	\$ 182,590	\$ 100,254	\$ 230,766	\$ 480,197	\$ 118,370	\$ 4,212,494
Payroll taxes	225,380	13,229	7,341	16,332	34,509	8,661	305,452
Employee benefits	568,594	28,756	5,751	46,010	74,765	11,502	735,378
Total personnel costs	3,894,291	224,575	113,346	293,108	589,471	138,533	5,253,324
Other costs and expenses							
Professional fees	224,169	250	-	9,667	30,401	-	264,487
Advertising and promotion	-	-	-	5,257	-	3,588	8,845
Office expenses	31,592	5,272	519	3,883	78,361	1,678	121,305
Information technology	60,900	633	70	5,740	95,342	1,440	164,125
Occupancy	142,490	305	633	1,654	10,616	600	156,298
Travel	102,788	1,738	577	6,689	7,753	706	120,251
Conferences and meetings	12,542	50	698	1,350	6,634	755	22,029
Depreciation	99,540	-	-	-	21,283	-	120,823
Insurance	6,229	-	-	-	37,693	-	43,922
Patient related care	52,332	-	-	-	-	-	52,332
Durable medical equipment	321,540	-	-	-	-	-	321,540
Skilled nursing facility	226,673	-	-	-	-	-	226,673
Medical supplies	78,584	-	-	-	-	-	78,584
Pharmacy	296,406	-	-	-	-	-	296,406
Other expenses	53,046	18,719	6,275	26,474	24,574	5,020	134,108
Total other costs and expenses	1,708,831	26,967	8,772	60,714	312,657	13,787	2,131,728
Total Expenses	\$ 5,603,122	\$ 251,542	\$ 122,118	\$ 353,822	\$ 902,128	\$ 152,320	\$ 7,385,052

See accompanying independent auditors' report and notes to financial statements.

HOSPICE OF THE NORTH COAST
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 2,136,910	\$ 1,602,107
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	127,885	123,319
Realized and unrealized gain on investments	(257,964)	(114,175)
Loss on disposal of assets	-	14,863
Donated inventory	(1,742)	13,499
(Increase) decrease in operating assets:		
Accounts receivable, net	(904,986)	114,398
Pledge receivable	-	10,000
Prepaid expenses	1,871	(5,572)
Deposits	(1,000)	(9,419)
Other assets	(5,612)	(1,887)
Increase (decrease) in operating liabilities:		
Accounts payable	(45,609)	21,215
Accrued salaries	48,066	20,352
Accrued compensated absences	36,314	13,512
Accrued expenses	2,468	(1,400)
Deferred revenue	(1,215)	1,875
Other liabilities	-	(1,330)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,135,386	1,801,357
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,000,000)	(2,000,000)
Purchases of property and equipment	(44,964)	(36,514)
NET CASH USED BY INVESTING ACTIVITIES	(2,044,964)	(2,036,514)
NET DECREASE IN CASH	(909,578)	(235,157)
CASH AT BEGINNING OF YEAR	2,942,859	3,178,016
CASH AT END OF YEAR	\$ 2,033,281	\$ 2,942,859

See accompanying independent auditors' report and notes to financial statements.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Hospice of the North Coast (Organization) is a California nonprofit corporation formed in 1980. The Organization's purpose is to provide comprehensive, individualized care for the terminally ill, and to provide grief support and education to the community.

The Organization accomplishes its purpose predominately through patient care. It also provides bereavement support. Based on revenue, major support comes from net patient revenue, contributions and the operation of its resale shop in Encinitas, California.

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

- *Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.
- *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Organization's ongoing services and investment revenue. Nonoperating activities are limited to other activities considered to be of a more unusual or nonrecurring nature.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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 periods. Actual results could differ from those estimates.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

In accordance with Financial Accounting Standards Board, fair value is defined as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Organization applies fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles.

FASB establishes a three-tier hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs and to establish the classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset of liability developed based on the best information available. The standard describes three-tier hierarchy of inputs that may be used to measure fair value:

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

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Due to the short-term nature of cash, receivables, other assets, accounts payable and accrued expenses, fair value approximates carrying value.

Capital Reserves

The Board-designated capital reserves have been established for the maintenance, repair and refurbishment of the Organization's administrative building and the Pacifica House. The amount allocated to these reserves is based on reserve studies performed by professional consultants. The reserves are funded on a monthly basis as determined by the Board. These funds are only to be spent on the capital expenditure projects for which they were initially intended, excluding any unforeseen circumstances.

Accounts Receivable

Accounts receivable consist primarily of net patient service revenue due from federal and state third-party reimbursement programs. Estimated uncollectible accounts receivable are recorded as a contractual allowance in the statements of financial position. The allowance is based on management's estimate. It is the policy of management to review the outstanding accounts receivable at year-end, as well as the bad debt write-offs experienced in the past to establish an allowance for doubtful accounts.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges Receivable

Pledges receivable represent unconditional promises to give and are reported at fair value by discounting any expected future pledge payments at the statement of financial position date. Pledges extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Changes in the fair value of pledges receivable are reported in the statements of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date.

Investments

Investments are carried at fair value on the statements of financial position. Investment return (including realized and unrealized gains and losses on investments, interest and dividends, and investment expense) is included in the change in unrestricted net assets unless restricted by donor or law.

Resale Shop Inventory

The resale shop inventory consists of items that have been donated by individuals in the community. Because many of the donations are used items, the value of donations is not readily determinable until such items are sold. Sales on donated items are recorded at the point of sale. Actual subsequent month sales of donated items are used to estimate the fair value of unsold inventory. Valuable donated items, such as jewelry or artwork, with a readily determinable fair market value are recorded at their appraised value or the value based on prices of identical or similar assets in the marketplace.

Property and Equipment

The Organization capitalizes all expenditures in excess of \$1,500 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to 27.5 years.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale of any resultant gain or loss is credited or charged to earnings.

Net Patient Service Revenue

The Organization recognizes revenue from patient services as it is earned based on the number of days care is provided. All patients are billed monthly. The Organization receives substantially all of its patient revenues from a combination of Medicare, Medi-Cal or private insurance companies. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
 Years Ended September 30, 2019 and 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions and Grants

Contributions and grants received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed Services

The Organization utilizes the services of volunteers throughout the year that perform a variety of tasks that assist the Organization with various programs. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The services do not meet the criteria for recognition as a contribution and are not reflected in the financial statements.

Resale Store

Contributions of clothing, household goods and other items to the Organization's resale store are recognized as resale store revenues when, and if sold. Resale store revenues are reported net of related operating expenses in the Statement of Activities. Resale store expenses, including depreciation, have been excluded from the Statement of Functional Expenses and are included with the resale store revenue in the Statement of Activities.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries	Time and effort
Benefits	FTE %
Occupancy	Square footage
Professional services	Direct
Office expenses	Direct
Information technologies	Direct
Travel	Direct
Conferences and meetings	Direct
Depreciation	Direct for furniture fixtures and equipment; square footage for building
Miscellaneous	Direct

See accompanying independent auditors' report.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. Income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511. For the years ended September 30, 2019 and 2018, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

The Organization follows the provision of uncertain tax positions as addressed in FASB Accounting Standards Codification. The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. The Organization believes that it has taken no significant uncertain tax positions for the years ended September 30, 2019 and 2018.

Change in Accounting Principle

Effective October 1, 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for financial statements issued for fiscal years beginning after December 15, 2017.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented. The Organization's net assets previously reported as temporarily restricted in the statement of activities are now reported as net assets with donor restrictions. Likewise, the Organization's net assets previously reported as unrestricted are now reported as net assets without donor restrictions.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU introduced a comprehensive, principle-based framework for recognizing revenue, and, when effective, will supersede the requirements in FASB ASC 605, Revenue Recognition, and virtually all industry-specific revenue recognition guidance in the FASB ASC. The ASU is intended to improve GAAP by providing a framework to address revenue recognition issues, creating more consistency and comparability of revenue recognition practices across entities and industries, and improving the usefulness of information provided to financial statement users through more robust disclosure requirements. Subsequent to the issuance of ASU 2014-09, the FASB issued a number of ASUs clarifying certain matters in ASU 2014-09. Those subsequent ASUs have the same effective dates as ASU 2014-09.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In August 2015, the original effective dates of ASU 2014-09 were deferred by one year through the issuance of ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. For entities other than public business entities, certain not-for-profit entities, and certain employee benefit plans, ASU 2014-09 (as revised) is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Management is evaluating the effect that the provisions of ASU 2014-09 will have on their financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01 Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01 enhances the existing financial instruments reporting model by modifying fair value measurement tools and modifying overall presentation and disclosure requirements. The provisions of ASU 2016-01 are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management is evaluating the effect that the provisions of ASU 2016-01 will have on their financial statements and related disclosures.

In June 2018, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2018-08, Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made. The update provides clarifying accounting guidance for contributions received and contributions made about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments in this update include (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

For contributions, an entity should follow the guidance in Subtopic 958-605, whereas for exchange transactions, an entity should follow other guidance (for example, Topic 606, Revenue from Contracts with Customers). Thus, the accounting may be different depending on the guidance applied. The provisions of ASU 2018-08 are effective for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. Management is evaluating the effect that the provisions of ASU 2018-08 will have on their financial statements and related disclosures.

NOTE 2. AVAILABILITY AND LIQUIDITY

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing that could be drawn upon if the governing board approves that action.

Financial assets at year-end:

Cash	\$	2,033,281
Accounts receivable, net		1,746,215
Pledge receivable		15,000
Investments		<u>7,071,490</u>
Total financial assets		10,865,986

See accompanying independent auditors' report.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
 Years Ended September 30, 2019 and 2018

NOTE 2. AVAILABILITY AND LIQUIDITY (continued)

Less amounts not available to be used within one year:

Restricted by donor with purpose restriction	<u>312,721</u>
Financial assets available to meet general expenditures within one year before board designations:	10,553,265
Less board designated reserves for capital improvements	<u>453,945</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u><u>10,099,320</u></u>

The Organization has \$10,099,320 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$2,033,281, accounts receivable of \$1,746,215, pledges receivable of \$15,000 and investments of \$7,071,490. \$766,666 of the financial assets are subject to donor or other board restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The pledges receivable are subject to implied time restrictions but are expected to be collected within one year. The Organization has a goal to maintain financial assets, which consist of cash and cash equivalents on hand to meet 180 - 270 days of normal operating expenses, which are on average approximately \$18,500 per day. As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To ensure this target is met, the Organization reports its financial position on a monthly basis to its governing board and communicates reported and projected revenue or expenditure variances at the same frequency. The Organization maintains no non-liquid financial assets. A balanced budget is approved by the Organization's Board on an annual basis. The Organization focuses on earned revenue through year-on-year and seeks contributed revenue that supports general operations and administrative functions, as well as contributed revenue that directly supports salaries, which is the Organization's major expenditure.

The Organization is also supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As of September 30, 2019, the Organization held investments in short-term money market funds with a fair market value of \$2,039,265 and mutual funds held for long-term investment with a fair market value of \$5,032,225. The investment funds above have been established by the governing board and may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

Occasionally, the board designates a portion of any operating surplus to its cash reserve which is maintained as part of the short-term investment fund. The sub-total "Financial assets available to meet cash needs for general expenditures within one year before board designations" represents another liquidity total, as board-designated reserves can be reversed and made available for immediate use in the event of an urgent liquidity need.

NOTE 3. CONCENTRATIONS OF CREDIT RISK

Cash

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash. The Organization maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor. At September 30, 2019 and 2018, the Organization exceeded federally insured limits by \$1,914,219 and \$2,691,276, respectively. Management has not experienced any losses in the past and does not believe the Organization is exposed to any significant risk.

See accompanying independent auditors' report.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 3. CONCENTRATIONS OF CREDIT RISK (continued)

Net Patient Service Revenue

The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates.

Approximately 93% and 90% of net patient service revenue for the years ended September 30, 2019 and 2018, respectively, was derived under federal and state third-party payor agreements. Accounts receivable from federal and state third-party reimbursement programs at September 30, 2019 and 2018 were 95% and 91%, respectively, of total accounts receivable.

Risks and Uncertainties

The Organization is invested in a variety of investments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

NOTE 4. FAIR VALUE MEASUREMENTS

The following table represents the financial instruments carried at fair value as of September 30, 2019, by caption on the statement of financial position by the fair value measurement hierarchy:

Asset	Level 1	Level 2	Level 3	Total Fair Value
Investments				
Money market funds	\$ 2,040,448	\$ -	\$ -	\$ 2,040,448
Mutual funds:				
Stocks:				
Emerging markets	428,452	-	-	428,452
Foreign	873,108	-	-	873,108
Large cap	871,635	-	-	871,635
Real estate	502,980	-	-	502,980
Small cap	413,793	-	-	413,793
Bonds:				
Intermediate	740,014	-	-	740,014
Inflation protected	968,974	-	-	968,974
Short term	232,086	-	-	232,086
Total assets at fair value	<u>\$ 7,071,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,071,490</u>

See accompanying independent auditors' report.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 4. FAIR VALUE MEASUREMENTS (continued)

The following table represents the financial instruments carried at fair value as of September 30, 2018, by caption on the statement of financial position by the fair value measurement hierarchy:

Asset	Level 1	Level 2	Level 3	Total Fair Value
Investments				
Money market funds	\$ 1,001,604	\$ -	\$ -	\$ 1,001,604
Mutual funds:				
Stocks:				
Emerging markets	338,609	-	-	338,609
Foreign	662,243	-	-	662,243
Large cap	214,490	-	-	214,490
Index	435,099	-	-	435,099
Real estate	344,867	-	-	344,867
Small cap	315,856	-	-	315,856
Bonds:				
Intermediate	293,166	-	-	293,166
Inflation protected	803,251	-	-	803,251
Short term	133,730	-	-	133,730
World	270,612	-	-	270,612
Total assets at fair value	\$ <u>4,813,527</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,813,527</u>

NOTE 5. INVESTMENTS

Investment income in the statements of activities consists of the following:

	2019	2018
Interest, dividends and capital gain	\$ 183,308	\$ 73,995
Investment expense	(540)	(950)
Realized and unrealized gains	75,196	41,129
	\$ <u>257,964</u>	\$ <u>114,174</u>

NOTE 6. PLEDGE RECEIVABLE

A pledge receivable is an unconditional promise to pay a certain amount and consists of the following at September 30:

	2019	2018
Pledge receivable	\$ <u>15,000</u>	\$ <u>15,000</u>
Current pledge receivable	\$ 15,000	\$ 5,000
Non-current pledge receivable	-	10,000
Total pledge receivable	\$ <u>15,000</u>	\$ <u>15,000</u>

100% of the pledge receivable is from a single donor and is expected to be collected within one year of the balance sheet date.

See accompanying independent auditors' report.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Building	\$ 2,167,231	\$ 2,167,231
Furniture and office equipment	81,601	70,700
Computer equipment	221,033	207,293
Leasehold improvements	<u>284,026</u>	<u>271,653</u>
	2,753,891	2,716,877
Less accumulated depreciation	<u>(961,760)</u>	<u>(841,825)</u>
	1,792,131	1,875,052
Land	<u>749,232</u>	<u>749,232</u>
	<u>\$ 2,541,363</u>	<u>\$ 2,624,284</u>

Depreciation expense for the years ended September 30, 2019 and 2018 was \$125,094 and \$120,823, respectively. Depreciation expense of \$2,791 and \$2,496 for the years ended September 30, 2019 and 2018, respectively, has been included in the resale shop expenses on the statements of activities.

NOTE 8. FORGIVEABLE NOTE

Long term liability consists of the following:

	<u>2019</u>	<u>2018</u>
Forgivable promissory note terminating February 6, 2033 granted by the Carlsbad City Council for the acquisition of a hospice house. The note bears interest at 0% with no amounts due as long as the Organization adheres to the provisions of the agreement.	\$ <u>1,065,000</u>	\$ <u>1,065,000</u>

NOTE 9. RESTRICTIONS ON NET ASSETS

Net assets without donor restrictions for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 11,193,984	\$ 9,135,347
Board designated reserves	<u>453,945</u>	<u>421,073</u>
	<u>\$ 11,647,929</u>	<u>\$ 9,556,420</u>

See accompanying independent auditors' report.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 9. RESTRICTIONS ON NET ASSETS (continued)

Net assets with donor restrictions for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Pacifica House	\$ 15,283	\$ 15,783
Palliative care	156,550	115,360
Technology	15,000	25,303
Creative arts	1,573	3,340
Bereavement	1,423	16,526
Staff appreciation, education and salaries	55,377	31,290
Promotional materials	10,000	4,218
Facility renovations	37,004	55,500
Pet therapy	4,000	-
Clinical skills lab	385	-
Global partners	125	-
Volunteer appreciation	5,000	-
Veterans	11,000	-
	<u>\$ 312,721</u>	<u>\$ 267,320</u>

Net assets released from net assets with donor restrictions are as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of program restrictions	\$ 315,450	\$ 248,103

NOTE 10. OPERATING LEASES

The Organization leases property in Encinitas, California for the resale thrift shop on a non-cancellable operating lease that expires October 31, 2019. The lease was extended through October 31, 2024. The annual rent increases every November on the anniversary of the start date by 3%. Total rent expense including common area maintenance and property taxes for this lease for the years ended September 30, 2019 and 2018 was \$206,312 and \$197,502, respectively.

The Organization also has a lease on office equipment that expires in December 2019. The lease has been extended through December 2022. Payments are \$2,730 per month. Total expense including sales and use tax for office equipment for the years ended September 30, 2019 and 2018 was \$37,541 and \$31,409, respectively.

Minimum future lease payments under these operating lease agreements at September 30, 2019 are due as follows:

<u>Year Ending September 30,</u>	
2020	\$ 219,988
2021	212,141
2022	217,522
2023	198,495
2024	196,014
Thereafter	<u>16,374</u>
	<u>\$ 1,060,534</u>

See accompanying independent auditors' report.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2019 and 2018

NOTE 11. EMPLOYEE RETIREMENT PLAN

The Organization sponsors a 401(k)-profit sharing plan. The plan covers substantially all employees. The Organization may make a matching contribution equal to a percentage of eligible employees' contributions and up to a percentage of pay chosen by the Organization. Effective November 1, 2015, the Organization elected to make a discretionary matching contribution equal to a uniform percentage or dollar amount of the employees' elective deferrals each payroll period. Each year, the Organization will determine the formula for any discretionary matching contribution. For the years ended September 30, 2019 and 2018, the employer matching contribution was set at 6%. Contribution expense for the years ended September 30, 2019 and 2018 was \$164,389 and \$177,747, respectively.

NOTE 12. SPLIT-INTEREST GIFTS

The Organization is a beneficiary of a split-interest irrevocable charitable remainder trust which was created in 1993. Upon termination of the trusts, the Organization will receive a 33.33% of the assets remaining in the trust. The trust fund is held by others and the present value of the estimated future amount to be received from the trust is not estimable therefore the investment has not been recorded.

NOTE 13. TRANSFERS OF ASSETS TO A RECIPIENT ORGANIZATION THAT RAISES OR HOLDS CONTRIBUTIONS FOR OTHERS

Endowment Fund

The Organization irrevocably transferred \$10,000 to the Coastal Community Foundation (CCF) during the year ended September 30, 2015 to establish the Hospice of the North Coast Compassionate Care Fund. The Organization granted variance power to CCF to carry out the purposes of the fund established by the transfer including but not limited to the power to retain, invest and reinvest the funds in any manner within the "prudent investor" standard and the power to commingle the assets of the established fund with those of other funds for investment purposes.

Further, the CCF was granted the ability to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to any specified organization if, in the sole discretion of the CCF Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. Each year, CCF will distribute to the Organization, four and a half percent (4.5%) of the value of the Fund as determined on a date in the prior year selected by the CCF's Board of Directors.

Currently, the value of each fund in the CCF is determined on December 31st of each year. The established fund is charged one and a half percent (1.5%) as an annual administrative fee. This fee shall be calculated based upon the average daily balance in the established fund and assessed on a monthly basis. Any costs to the CCF in accepting, transferring or managing property donated to the CCF for the established fund shall also be paid from the established fund. The account balance as of September 30, 2019 and 2018 was \$23,562 and \$23,281, respectively. The CCF made no contributions to the Organization for the years ended September 30, 2019 and 2018.

NOTE 14. CONTINGENCIES

From time to time, the Organization is subject to various litigation as a result of its ongoing business activities. Management believes that the outcome of any such litigation will not have a material adverse effect on the Organization's statement of financial position, results of operations, or liquidity.

NOTE 15. RECLASSIFICATIONS

Certain items in the 2018 financial statements have been reclassified to conform to current year classifications. Reclassifications involved the statement of functional expenses and the account grouping for financial statement purposes. Such reclassifications had no effect on previously reported changes in net assets.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
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NOTE 16. SUBSEQUENT EVENTS

The Organization evaluated subsequent events through January 28, 2020, the date which the financial statements were available to be issued.