

HOSPICE OF THE NORTH COAST
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Years Ended September 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee
Hospice of the North Coast
Carlsbad, California

We have audited the accompanying statements of financial position of Hospice of the North Coast (a nonprofit organization) as of September 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Hospice of the North Coast's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospice of the North Coast as of September 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Redfern & Company

Encinitas, California
March 16, 2012

HOSPICE OF THE NORTH COAST
STATEMENTS OF FINANCIAL POSITION
September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 685,014	\$ 1,006,013
Accounts receivable, net of allowance for uncollectible accounts of \$57,701 (2011) and \$32,350 (2010)	558,343	315,501
Prepaid expenses	<u>10,800</u>	<u>2,853</u>
TOTAL CURRENT ASSETS	1,254,157	1,324,367
NONCURRENT ASSETS		
Property and equipment, net of accumulated depreciation	1,728,705	1,642,661
Assets not placed into service	-	30,810
Deposits	<u>20,334</u>	<u>60,899</u>
TOTAL NONCURRENT ASSETS	<u>1,749,039</u>	<u>1,734,370</u>
TOTAL ASSETS	<u>\$ 3,003,196</u>	<u>\$ 3,058,737</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 144,295	\$ 75,774
Accrued salaries	33,104	52,211
Accrued compensated absences	59,385	63,789
Accrued expenses	9,326	14,077
Current portion of long term liabilities	51,805	44,520
Deferred revenue	<u>42,808</u>	<u>40,315</u>
TOTAL CURRENT LIABILITIES	340,723	290,686
LONG TERM LIABILITIES, less current portion	<u>1,104,807</u>	<u>1,155,480</u>
TOTAL LIABILITIES	1,445,530	1,446,166
NET ASSETS		
Unrestricted	<u>1,557,666</u>	<u>1,612,571</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,003,196</u>	<u>\$ 3,058,737</u>

HOSPICE OF THE NORTH COAST
STATEMENT OF ACTIVITIES
Year Ended September 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Net patient service revenue	\$ 2,984,464	\$ -	\$ 2,984,464
Contributions	94,221	273,800	368,021
Resale shop sales (net of \$47,349 of sales taxes) including resale shop contributions of \$588,940	1,177,880	-	1,177,880
Less: resale shop expenses	(886,368)	-	(886,368)
Special events	93,441	-	93,441
Less: special event expenses	(28,543)	-	(28,543)
Rental income	76,749	-	76,749
Less: rental expenses	(77,298)	-	(77,298)
Interest	3,589	-	3,589
Net assets released from restrictions, satisfaction of program restrictions	273,800	(273,800)	-
TOTAL SUPPORT AND REVENUE	3,711,935	-	3,711,935
OPERATING EXPENSES			
Program services			
Patient care	2,181,464	-	2,181,464
Bereavement	141,801	-	141,801
Volunteer	106,837	-	106,837
Community outreach	219,941	-	219,941
Supporting services			-
Administration	1,044,629	-	1,044,629
Fundraising	72,168	-	72,168
TOTAL EXPENSES	3,766,840	-	3,766,840
DECREASE IN NET ASSETS	(54,905)	-	(54,905)
NET ASSETS AT BEGINNING OF YEAR	1,612,571	-	1,612,571
NET ASSETS AT END OF YEAR	\$ 1,557,666	\$ -	\$ 1,557,666

HOSPICE OF THE NORTH COAST
STATEMENT OF ACTIVITIES
Year Ended September 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Net patient service revenue	\$ 2,754,925	\$ -	\$ 2,754,925
Contributions	375,634	-	375,634
Resale shop sales (net of \$48,206 of sales taxes) including resale shop contributions of \$552,301	1,104,602	-	1,104,602
Less: resale shop expenses	(846,669)	-	(846,669)
Special events	106,940	-	106,940
Less: special event expenses	(29,935)	-	(29,935)
Interest	13,042	-	13,042
Net assets released from restrictions, satisfaction of program restrictions	124,950	(124,950)	-
TOTAL SUPPORT AND REVENUE	3,603,489	(124,950)	3,478,539
EXPENSES			
Program services			
Patient care	1,999,857	-	1,999,857
Bereavement	144,043	-	144,043
Volunteer	105,320	-	105,320
Community outreach	246,328	-	246,328
Supporting services			
Administration	650,038	-	650,038
Fundraising	57,680	-	57,680
TOTAL EXPENSES	3,203,266	-	3,203,266
INCREASE (DECREASE) IN NET ASSETS	400,223	(124,950)	275,273
NET ASSETS AT BEGINNING OF YEAR	1,212,348	124,950	1,337,298
NET ASSETS AT END OF YEAR	\$ 1,612,571	\$ -	\$ 1,612,571

HOSPICE OF THE NORTH COAST
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (54,905)	\$ 275,273
Adjustments to reconcile (decrease) increase in net assets to net cash (used) provided by operating activities:		
Depreciation	73,690	14,537
Gain on the disposal of assets	(1,104)	-
(Increase) decrease in operating assets:		
Accounts receivable, net	(242,842)	(65,550)
Prepaid expenses	(7,947)	26,723
Increase (decrease) in operating liabilities:		
Accounts payable	68,521	10,442
Accrued salaries	(19,107)	(24,013)
Accrued compensated absences	(4,404)	9,766
Accrued expenses	(4,751)	1,836
Deferred revenue	2,493	26,820
	<u>(190,356)</u>	<u>275,834</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
(Decrease) Increase in deposits	40,565	(32,616)
Transfer (Purchase) of assets not placed into service	30,810	(30,810)
Purchases of property and equipment, net of disposals	<u>(158,630)</u>	<u>(442,061)</u>
	<u>(87,255)</u>	<u>(505,487)</u>
NET CASH USED BY INVESTING ACTIVITIES		
CASH FLOWS USED BY FINANCING ACTIVITIES		
Payments on long-term debt	<u>(43,388)</u>	<u>-</u>
	<u>(320,999)</u>	<u>(229,653)</u>
NET DECREASE IN CASH		
CASH AT BEGINNING OF YEAR	<u>1,006,013</u>	<u>1,235,666</u>
CASH AT END OF YEAR	<u>\$ 685,014</u>	<u>\$ 1,006,013</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTION:		
Mortgage on property	<u>\$ -</u>	<u>\$ 1,200,000</u>

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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 bereavements support. Based on revenue, major support comes from net patient revenue, contributions and the operation of its resale shop in Encinitas, California.

Basis of Presentation

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 Organization had no permanently restricted net assets during the years ended September 30, 2011 and 2010.

Use of Estimates

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

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 uncollectible amounts.

Property and Equipment

Property and equipment are recorded at cost or at estimated fair value at date of gift if donated. The Organization capitalizes assets having a value greater than \$1,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to twenty seven and a half years.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. 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 (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 statements of activities as net assets released from restrictions.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with various programs. The services do not meet the criteria for recognition as a contribution and are not reflected in the financial statements.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010

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

Donated Inventory Items

The Organization records donated inventory at fair market value. Because the fair value of the inventory cannot be objectively determined prior to its sale, the Organization records donated items as revenue and cost of goods sold in the period sold.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Advertising

The Organization expenses the cost of advertising as incurred.

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, however, may be subject to tax on income which is not related to its exempt purpose. For the years ended September 30, 2011 and 2010 the Organization is reporting no such net unrelated business taxable income and, therefore, no provision for income taxes has been made. The Organization is not a private foundation.

The Organization recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions.

The Organization files informational and income tax returns in the United States and various state and local jurisdictions. The Organization's Federal income tax and informational returns for the years ended September 30, 2011, 2010 and 2009 are subject to examination by the Internal Revenue Service, generally for 3 years after the returns were filed. State and local jurisdictions have statutes of limitation that generally range from 3 to 5 years.

Subsequent Events

The Organization evaluated subsequent events through March 16, 2012, which is the date the financial statements were available to be issued.

NOTE 2. CONCENTRATION OF CREDIT RISK

Cash

The Organization has deposits in financial institutions that may, at times exceed the federally insured limits. The Organization manages the risk by using institutions management believes to be high quality.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010

NOTE 2. CONCENTRATION 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 98% and 94% of net patient service revenue for the years ended September 30, 2011 and 2010, respectively, was derived under federal and state third-party payor agreements. Accounts receivable from federal and state third-party reimbursement programs at September 30, 2011 and 2010 were 94% and 91%, respectively, of total accounts receivable.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Building	\$ 1,192,846	\$ 1,192,846
Land	416,000	416,000
Furniture and office equipment	47,568	71,824
Computer equipment	115,666	46,374
Leasehold improvements	76,921	28,955
	<u>1,849,001</u>	<u>1,755,999</u>
Less accumulated depreciation	<u>(120,296)</u>	<u>(113,338)</u>
	<u>\$ 1,728,705</u>	<u>\$ 1,642,661</u>

NOTE 4. LONG TERM LIABILITIES

In September 2010 the Organization entered into a note with City National Bank in the amount of \$1,200,000 payable in monthly installments beginning October 1, 2010 of principal and interest, which accrues at 6.75%, due October 1, 2025. The proceeds of this loan were used to purchase the land and building located at 2525 Pio Pico Drive, Carlsbad, California. The loan is secured by the deed of trust.

Principal payments at September 30, 2011 are due as follows:

<u>Year Ending</u> <u>September 30,</u>	
2012	\$ 51,805
2013	55,412
2014	59,271
2015	63,397
2016	67,812
Thereafter	<u>858,915</u>
	<u>\$ 1,156,612</u>

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2011 and 2010

NOTE 5. OPERATING LEASES

The Organization leased property in Carlsbad; California which expired December 31, 2010. The Organization also leases property in Encinitas, California on a lease that expires October 31, 2014. Total rent expense for these leases for the years ended September 30, 2011 and 2010 was \$194,977 and \$262,956, respectively. The Organization leases office equipment. Total rent expense for office equipment for the years ended September 30, 2011 and 2010 was \$12,096 and \$12,096, respectively.

Future minimum payments under these operating leases at September 30, 2011 are due as follows:

Year Ending September 30,	
2012	\$ 167,500
2013	158,110
2014	159,464
2015	12,563
Thereafter	<u>-</u>
	<u>\$ 497,637</u>

NOTE 6. RELATED PARTY TRANSACTIONS

During the year ended September 30, 2010, the Organization purchased \$6,823 of promotional goods from Fenner & Associates (a related party). There were no related party transactions during the year ended September 30, 2011.

NOTE 7. 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. The Organization elected to match 100% of eligible employees' contributions up to 3% of gross pay for the years ended September 30, 2011 and 2010. Contribution expense for the years ended September 30, 2011 and 2010 was \$22,262 and \$22,736, respectively.

NOTE 8. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on time and usage.

NOTE 9. RECLASSIFICATIONS

Certain items in the 2010 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

SUPPLEMENTARY INFORMATION

HOSPICE OF THE NORTH COAST
SCHEDULE I - STATEMENT OF OPERATING EXPENSES
Year Ended September 30, 2011

	Program Services		
	Patient Care	Bereavement	Volunteer
Advertising	\$ -	\$ -	\$ -
Ambulance	10,093	-	-
Bank charges	-	-	-
Benefits	167,314	7,270	11,725
Bio hazardous waste	1,241	-	-
Computer	17,543	317	995
Consulting	17,245	-	-
Continuing education	1,644	995	-
Contract labor	6,032	-	-
Depreciation	-	-	-
Dues	5,294	250	25
Durable medical equipment	151,978	-	-
Emergency room	1,568	-	-
Facility	32,293	10,979	1,938
Functions and events	-	-	16
Insurance	-	-	-
Interest	-	-	-
Lab and diagnostics	5,949	-	-
Marketing	-	-	-
Medical supplies	46,150	-	-
Meetings	-	33	-
Mileage	49,500	548	705
Minor equipment	1,522	2,621	1,221
Miscellaneous	30	1,305	-
Office	3,102	2,272	323
Outpatient services	8,500	-	-
Payroll taxes	78,508	6,622	4,993
Pharmacy	103,199	-	-
Postage	-	2,399	73
Printing	-	2,935	-
Professional services	-	-	-
Salaries	1,314,663	103,161	77,778
Service contracts	-	-	-
Skilled nursing faculty	142,328	-	-
Taxes	-	-	-
Telephone	7,462	94	411
Therapies	8,306	-	-
Transportation	-	-	-
Volunteer appreciation	-	-	6,634
	<u>\$ 2,181,464</u>	<u>\$ 141,801</u>	<u>\$ 106,837</u>

		Supporting Services		
Community Outreach	Administration	Fundraising	Total	
\$ 10,101	\$ 4,329	\$ -	\$ 14,430	
-	-	-	10,093	
-	1,434	-	1,434	
11,032	82,186	7,180	286,707	
-	-	-	1,241	
532	38,318	5,714	63,419	
7,770	43,796	23,294	92,105	
325	2,924	65	5,953	
-	-	-	6,032	
-	56,641	-	56,641	
70	35,021	-	40,660	
-	-	-	151,978	
-	-	-	1,568	
1,938	44,938	1,292	93,378	
-	-	-	16	
-	21,696	-	21,696	
-	49,429	-	49,429	
-	-	-	5,949	
21,999	12,674	-	34,673	
-	-	-	46,150	
772	3,086	48	3,939	
7,251	6,764	88	64,856	
2,198	23,598	1,180	32,340	
11	16,732	-	18,078	
1,148	49,528	393	56,766	
-	-	-	8,500	
9,048	33,506	1,662	134,339	
-	-	-	103,199	
-	5,395	1,302	9,169	
61	6,061	3,906	12,963	
3,616	13,519	-	17,135	
140,946	457,989	25,883	2,120,420	
-	10,505	-	10,505	
-	-	-	142,328	
-	10	-	10	
1,083	24,485	161	33,696	
-	-	-	8,306	
40	65	-	105	
-	-	-	6,634	
<u>\$ 219,941</u>	<u>\$ 1,044,629</u>	<u>\$ 72,168</u>	<u>\$ 3,766,840</u>	

HOSPICE OF THE NORTH COAST
SCHEDULE II - STATEMENT OF OPERATING EXPENSES
Year Ended September 30, 2010

	Program Services		
	Patient Care	Bereavement	Volunteer
Advertising	\$ -	\$ -	\$ -
Ambulance	8,430	-	-
Bank charges	-	-	-
Benefits	178,293	9,252	10,420
Bio hazardous waste	800	-	-
Computer	5,926	317	2,387
Consulting	-	-	-
Continuing education	2,925	514	-
Contract labor	1,888	-	-
Depreciation	-	-	-
Dues	-	550	120
Durable medical equipment	150,359	-	-
Facility	10,521	3,577	631
Insurance	-	-	-
Lab and diagnostics	1,684	-	-
Marketing	-	-	-
Medical supplies	40,447	-	-
Meetings	-	-	-
Mileage	53,919	197	-
Minor equipment	2,285	1,230	-
Miscellaneous	145	248	-
Office	1,568	1,428	189
Outpatient services	9,635	-	-
Payroll taxes	93,847	8,356	6,547
Pharmacy	132,477	-	-
Postage	-	2,408	-
Printing	-	397	-
Professional services	-	-	-
Promotional	-	-	-
Rent	55,482	18,864	3,329
Salaries	1,150,543	96,705	75,766
Service contracts	-	-	-
Skilled nursing faculty	80,311	-	-
Taxes	-	-	-
Telephone	8,325	-	479
Therapies	10,047	-	-
Volunteer appreciation	-	-	5,452
	<u>\$ 1,999,857</u>	<u>\$ 144,043</u>	<u>\$ 105,320</u>

		Supporting Services		
Community Outreach			Total	
\$	\$	\$	\$	
22,540	9,660	-	32,200	
-	-	-	8,430	
-	6,275	-	6,275	
13,815	14,898	5,157	231,835	
-	-	-	800	
678	67,297	-	76,605	
-	38,867	-	38,867	
440	12,191	-	16,070	
-	-	-	1,888	
-	9,472	-	9,472	
249	19,974	-	20,893	
-	-	-	150,359	
631	5,260	421	21,041	
-	14,228	-	14,228	
-	-	-	1,684	
6,890	2,953	-	9,843	
-	-	-	40,447	
-	2,816	-	2,816	
3,745	4,580	-	62,441	
724	3,845	-	8,084	
149	3,211	-	3,753	
2,162	34,686	-	40,033	
-	-	-	9,635	
8,717	30,271	3,967	151,705	
-	-	-	132,477	
-	5,623	-	8,031	
2,549	2,960	-	5,906	
-	13,747	-	13,747	
9,209	3,947	-	13,156	
3,329	27,741	2,219	110,964	
170,054	281,178	45,916	1,820,162	
-	11,958	-	11,958	
-	-	-	80,311	
-	170	-	170	
447	22,230	-	31,481	
-	-	-	10,047	
-	-	-	5,452	
<u>\$ 246,328</u>	<u>\$ 650,038</u>	<u>\$ 57,680</u>	<u>\$ 3,203,266</u>	