
HOSPICE OF THE NORTH COAST
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Years Ended September 30, 2012 and 2011



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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, 2012 and 2011, 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, 2012 and 2011 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 audits were 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
January 14, 2013

HOSPICE OF THE NORTH COAST
STATEMENTS OF FINANCIAL POSITION
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 876,349	\$ 685,014
Accounts receivable, net of allowance for uncollectible accounts of \$42,286 (2012) and \$57,701 (2011)	421,023	558,343
Prepaid expenses	<u>50,448</u>	<u>10,800</u>
TOTAL CURRENT ASSETS	1,347,820	1,254,157
NONCURRENT ASSETS		
Property and equipment, net of accumulated depreciation	1,657,407	1,728,705
Deposits	<u>32,167</u>	<u>20,334</u>
TOTAL NONCURRENT ASSETS	<u>1,689,574</u>	<u>1,749,039</u>
TOTAL ASSETS \$	<u><u>3,037,394</u></u>	<u><u>3,003,196</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 82,197	\$ 144,295
Accrued salaries	65,093	33,104
Accrued compensated absences	69,492	59,385
Accrued expenses	5,887	9,326
Current portion of long term liability	-	51,805
Deferred revenue	<u>350</u>	<u>42,808</u>
TOTAL CURRENT LIABILITIES	223,019	340,723
LONG TERM LIABILITY, less current portion	<u>-</u>	<u>1,104,807</u>
TOTAL LIABILITIES	223,019	1,445,530
NET ASSETS		
Unrestricted	2,794,938	1,557,666
Temporarily restricted	<u>19,437</u>	<u>-</u>
TOTAL NET ASSETS	<u><u>2,814,375</u></u>	<u><u>1,557,666</u></u>
TOTAL LIABILITIES AND NET ASSETS \$	<u><u>3,037,394</u></u>	<u><u>3,003,196</u></u>

HOSPICE OF THE NORTH COAST
STATEMENT OF ACTIVITIES
Year Ended September 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Net patient service revenue	\$ 3,859,492	\$ -	\$ 3,859,492
Contributions	1,105,871	232,043	1,337,914
Resale shop sales (net of \$50,126 of sales taxes) including resale shop contributions of \$652,896	1,305,792	-	1,305,792
Less: resale shop expenses	(941,600)	-	(941,600)
Special events	58,945	-	58,945
Less: special event expenses	(29,512)	-	(29,512)
Rental income	65,638	-	65,638
Less: rental expenses	(69,975)	-	(69,975)
Interest	5,459	-	5,459
Net assets released from restrictions, satisfaction of program restrictions	212,606	(212,606)	-
TOTAL SUPPORT AND REVENUE	5,572,716	19,437	5,592,153
OPERATING EXPENSES			
Program services			
Patient care	2,541,264	-	2,541,264
Bereavement	218,028	-	218,028
Volunteer	106,800	-	106,800
Community outreach	323,546	-	323,546
Supporting services			
Administration	999,547	-	999,547
Fundraising	146,259	-	146,259
TOTAL EXPENSES	4,335,444	-	4,335,444
INCREASE IN NET ASSETS	1,237,272	19,437	1,256,709
NET ASSETS AT BEGINNING OF YEAR	1,557,666	-	1,557,666
NET ASSETS AT END OF YEAR	\$ 2,794,938	\$ 19,437	\$ 2,814,375

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	110,021	273,800	383,821
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	77,641	-	77,641
Less: special event expenses	(14,489)	-	(14,489)
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	3,725,989	-	3,725,989
OPERATING EXPENSES			
Program services			
Patient care	2,181,464	-	2,181,464
Bereavement	155,855	-	155,855
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	3,780,894	-	3,780,894
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
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ 1,256,709	\$ (54,905)
Adjustments to reconcile (decrease) increase in net assets to net cash (used) provided by operating activities:		
Depreciation	105,953	73,690
Gain on the disposal of assets	-	(1,104)
(Increase) decrease in operating assets:		
Accounts receivable, net	137,320	(242,842)
Prepaid expenses	(39,648)	(7,947)
Increase (decrease) in operating liabilities:		
Accounts payable	(62,098)	68,521
Accrued salaries	31,989	(19,107)
Accrued compensated absences	10,107	(4,404)
Accrued expenses	(3,439)	(4,751)
Deferred revenue	<u>(42,458)</u>	<u>2,493</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	1,394,435	(190,356)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase (decrease) Increase in deposits	(11,833)	40,565
Transfer of assets not placed into service	-	30,810
Purchases of property and equipment, net of disposals	<u>(34,655)</u>	<u>(158,630)</u>
NET CASH USED BY INVESTING ACTIVITIES	(46,488)	(87,255)
CASH FLOWS USED BY FINANCING ACTIVITIES		
Payments on long-term debt	<u>(1,156,612)</u>	<u>(43,388)</u>
NET INCREASE (DECREASE) IN CASH	191,335	(320,999)
CASH AT BEGINNING OF YEAR	<u>685,014</u>	<u>1,006,013</u>
CASH AT END OF YEAR	\$ <u>876,349</u>	\$ <u>685,014</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 81,529</u>	<u>\$ 74,144</u>

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

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 bereavement 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, 2012 and 2011.

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, 2012 and 2011

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, 2012 and 2011 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, 2012, 2011 and 2010 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 January 14, 2013, 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, 2012 and 2011

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 99% and 98% of net patient service revenue for the years ended September 30, 2012 and 2011, respectively, was derived under federal and state third-party payor agreements. Accounts receivable from federal and state third-party reimbursement programs at September 30, 2012 and 2011 were 98% and 94%, respectively, of total accounts receivable.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2012</u>	<u>2011</u>
Building	\$ 1,192,846	\$ 1,192,846
Land	416,000	416,000
Furniture and office equipment	49,155	47,568
Computer equipment	140,244	115,666
Leasehold improvements	85,407	76,921
	<u>1,883,652</u>	<u>1,849,001</u>
Less accumulated depreciation	<u>(226,245)</u>	<u>(120,296)</u>
	<u>\$ 1,657,407</u>	<u>\$ 1,728,705</u>

NOTE 4. LONG TERM LIABILITY

Long term liability consists of the following:

	<u>2012</u>	<u>2011</u>
Note payable to a financial institution, payable in monthly installments of \$10,685 including interest at 6.75%, secured by deed of trust, through October 1, 2025. The note was paid in full during September 2012.	\$ -	\$ 1,156,612
Less current portion	<u>-</u>	<u>(51,805)</u>
	<u>\$ -</u>	<u>\$ 1,104,807</u>

NOTE 5. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets of \$19,437 are available for the "Ask for Us" advertising campaign at September 30, 2012. There were no temporarily restricted net assets as of September 30, 2011.

NOTE 6. 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, 2012 and 2011 was \$168,947 and \$194,977, respectively. The Organization leases office equipment. Total rent expense for office equipment for the years ended September 30, 2012 and 2011 was \$15,053 and \$12,096, respectively.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2012 and 2011

NOTE 6. OPERATING LEASES (Continued)

Future minimum payments under these operating leases at September 30, 2012 are due as follows:

Year Ending September 30,		
2013	\$	159,352
2014		163,731
2015		22,811
2016		1,077
Thereafter		<u>-</u>
	\$	<u>347,041</u>

NOTE 7. RENTAL INCOME

The Organization leases portions of its building space to two companies under operating leases. One lease has moved to a monthly arrangement as of January 1, 2013 and the other expires September 2014. Revenue under the lease agreements for the years ended September 30, 2012 and 2011 were \$65,638 and \$76,749, respectively.

Future minimum lease payments to be received under operating leases are as follows:

Year Ending September 30,		
2013	\$	43,693
2014		<u>33,251</u>
	\$	<u>76,944</u>

NOTE 8. 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, 2012 and 2011. Contribution expense for the years ended September 30, 2012 and 2011 was \$37,328 and \$22,262, respectively.

NOTE 9. 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 10. RECLASSIFICATIONS

Certain items in the 2011 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

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HOSPICE OF THE NORTH COAST
SCHEDULE I - STATEMENT OF OPERATING EXPENSES
Year Ended September 30, 2012

	Program Services			
	Patient Care	Bereavement	Volunteer	Community Outreach
Advertising	\$ -	\$ -	\$ -	\$ 7,719
Ambulance	8,566	-	-	-
Bad debt	67,851	-	-	-
Bank charges	-	-	-	-
Benefits	270,184	24,741	8,277	24,741
Bio hazardous waste	1,016	-	-	-
Computer	70,923	2,688	2,186	3,797
Consulting	4,200	-	-	5,400
Continuing education	3,720	1,366	1,267	1,476
Contract labor	12,183	-	-	44,666
Depreciation	14,459	2,892	868	2,892
Diet & Nutritional	4,745	-	-	-
Donor Relations	-	-	-	-
Dues	8,079	2,056	-	769
Durable medical equipment	159,598	-	-	-
Emergency Room	3,623	-	-	-
Facility	14,780	2,956	887	2,956
Functions and events	-	26,005	-	-
Inpatient	52,044	-	-	-
Insurance	-	-	-	-
Interest	27,176	5,435	1,631	5,435
Lab and diagnostics	2,834	-	-	-
Marketing	-	-	-	21,389
Medical supplies	54,807	-	-	-
Meetings	252	314	22	18
Mileage	64,652	2,277	971	11,370
Minor equipment	3,020	-	-	-
Miscellaneous	1,722	196	35	72
Office	12,248	3,296	26	2,083
Outpatient services	685	-	-	-
Payroll taxes	95,552	9,037	5,206	12,094
Pharmacy	136,997	-	-	-
Postage	-	1,847	202	438
Printing	532	3,283	326	2,345
Professional services	-	-	-	-
Property Taxes	1,795	359	108	359
Publications	-	422	-	-
Rent	-	-	-	-
Respite	13,891	-	-	-
Salaries	1,374,530	126,742	78,540	169,918
Skilled nursing faculty	25,268	-	-	-
Telephone	17,349	2,116	860	3,609
Therapies	8,195	-	-	-
Uniforms	3,788	-	-	-
Volunteer appreciation	-	-	5,388	-
	<u>\$ 2,541,264</u>	<u>\$ 218,028</u>	<u>\$ 106,800</u>	<u>\$ 323,546</u>

See independent auditors' report.

Supporting Services

<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
\$ 6,710	\$ -	\$ 14,429
-	-	8,566
-	-	67,851
45,418	-	45,418
70,534	16,494	414,971
-	-	1,016
45,234	4,483	129,311
31,298	5,301	46,199
3,314	898	12,041
45,349	-	102,198
67,217	578	88,906
-	-	4,745
-	1,092	1,092
12,726	-	23,630
-	-	159,598
-	-	3,623
7,390	591	29,560
185	-	26,190
-	-	52,044
13,624	-	13,624
13,588	1,087	54,352
-	-	2,834
9,311	-	30,700
-	-	54,807
1,748	92	2,446
7,002	969	87,241
6,129	-	9,149
1,316	49	3,390
40,455	1,557	59,665
-	-	685
36,006	6,936	164,831
-	-	136,997
3,107	637	6,231
2,310	1,981	10,777
30,673	-	30,673
898	72	3,591
929	-	1,351
1,376	-	1,376
-	-	13,891
479,156	102,283	2,331,169
-	-	25,268
16,544	1,159	41,637
-	-	8,195
-	-	3,788
-	-	5,388
<u>\$ 999,547</u>	<u>\$ 146,259</u>	<u>\$ 4,335,444</u>

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

	Program Services			
	Patient Care	Bereavement	Volunteer	Community Outreach
Advertising	\$ -	\$ -	\$ -	10,101
Ambulance	10,093	-	-	-
Bank charges	-	-	-	-
Benefits	167,314	7,270	11,725	11,032
Bio hazardous waste	1,241	-	-	-
Computer	17,543	317	995	532
Consulting	17,245	-	-	7,770
Continuing education	1,644	995	-	325
Contract labor	6,032	-	-	-
Depreciation	-	-	-	-
Dues	5,294	250	25	70
Durable medical equipment	151,978	-	-	-
Emergency room	1,568	-	-	-
Facility	32,293	10,979	1,938	1,938
Functions and events	-	14,054	16	-
Insurance	-	-	-	-
Interest	-	-	-	-
Lab and diagnostics	5,949	-	-	-
Marketing	-	-	-	21,999
Medical supplies	46,150	-	-	-
Meetings	-	33	-	772
Mileage	49,500	548	705	7,251
Minor equipment	1,522	2,621	1,221	2,198
Miscellaneous	30	1,305	-	11
Office	3,102	2,272	323	1,148
Outpatient services	8,500	-	-	-
Payroll taxes	78,508	6,622	4,993	9,048
Pharmacy	103,199	-	-	-
Postage	-	2,399	73	-
Printing	-	2,935	-	61
Professional services	-	-	-	3,616
Salaries	1,314,663	103,161	77,778	140,946
Service contracts	-	-	-	-
Skilled nursing faculty	142,328	-	-	-
Taxes	-	-	-	-
Telephone	7,462	94	411	1,083
Therapies	8,306	-	-	-
Transportation	-	-	-	40
Volunteer appreciation	-	-	6,634	-
	<u>\$ 2,181,464</u>	<u>\$ 155,855</u>	<u>\$ 106,837</u>	<u>\$ 219,941</u>

Supporting Services

<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
\$ 4,329	\$ -	\$ 14,430
-	-	10,093
1,434	-	1,434
82,186	7,180	286,707
-	-	1,241
38,318	5,714	63,419
43,796	23,294	92,105
2,924	65	5,953
-	-	6,032
56,641	-	56,641
35,021	-	40,660
-	-	151,978
-	-	1,568
44,938	1,292	93,378
-	-	14,070
21,696	-	21,696
49,429	-	49,429
-	-	5,949
12,674	-	34,673
-	-	46,150
3,086	48	3,939
6,764	88	64,856
23,598	1,180	32,340
16,732	-	18,078
49,528	393	56,766
-	-	8,500
33,506	1,662	134,339
-	-	103,199
5,395	1,302	9,169
6,061	3,906	12,963
13,519	-	17,135
457,989	25,883	2,120,420
10,505	-	10,505
-	-	142,328
10	-	10
24,485	161	33,696
-	-	8,306
65	-	105
-	-	6,634
<u>\$ 1,044,629</u>	<u>\$ 72,168</u>	<u>\$ 3,780,894</u>