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**HOSPICE OF THE NORTH COAST**  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
Years Ended September 30, 2016 and 2015

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of Hospice of the North Coast (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities 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 from 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.

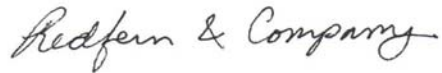
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospice of the North Coast as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of operating expenses for the years ended at September 30, 2016 and 2015 are presented for purposes of additional analysis and are 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 audits 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.

A handwritten signature in cursive script that reads "Redfern & Company".

Encinitas, California  
February 10, 2017

**HOSPICE OF THE NORTH COAST**  
**STATEMENTS OF FINANCIAL POSITION**  
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 3,004,478	\$ 2,206,923
Accounts receivable, net of allowance for doubtful accounts	851,364	645,049
Pledge receivable	10,000	40,000
Prepaid expenses	<u>114,509</u>	<u>102,661</u>
<b>TOTAL CURRENT ASSETS</b>	<b>3,980,351</b>	<b>2,994,633</b>
<b>NONCURRENT ASSETS</b>		
Investments	1,050,887	-
Property and equipment, net of accumulated depreciation	2,752,434	2,735,239
Noncurrent pledge receivable	<u>20,000</u>	<u>-</u>
Deposits	<u>15,042</u>	<u>9,781</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b><u>3,838,363</u></b>	<b><u>2,745,020</u></b>
<b>TOTAL ASSETS</b>	<b>\$ <u><u>7,818,714</u></u></b>	<b>\$ <u><u>5,739,653</u></u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 155,764	\$ 104,010
Accrued salaries	144,677	119,356
Accrued compensated absences	145,830	153,773
Accrued expenses	4,720	2,072
Deferred revenue	<u>-</u>	<u>590</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>450,991</b>	<b>379,801</b>
<b>LONG TERM LIABILITY</b>	<u>1,065,000</u>	<u>1,065,000</u>
<b>TOTAL LIABILITIES</b>	<b>1,515,991</b>	<b>1,444,801</b>
<b>NET ASSETS</b>		
Unrestricted	6,162,695	4,113,735
Temporarily restricted	<u>140,028</u>	<u>181,117</u>
<b>TOTAL NET ASSETS</b>	<b><u>6,302,723</u></b>	<b><u>4,294,852</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u><u>7,818,714</u></u></b>	<b>\$ <u><u>5,739,653</u></u></b>

**HOSPICE OF THE NORTH COAST**  
**STATEMENT OF ACTIVITIES**  
Year Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Net patient service revenue	\$ 7,459,860	\$ -	\$ 7,459,860
Contributions	126,800	249,812	376,612
Resale shop sales (net of \$48,233 of sales taxes) including resale shop contributions of \$599,508	1,199,016	-	1,199,016
Less: resale shop expenses	(941,884)	-	(941,884)
Special Events, net of expenses \$27,905	33,565	-	33,565
Investment income	46,045	-	46,045
Interest	1,841	-	1,841
Net assets released from restrictions, satisfaction of program restrictions	290,901	(290,901)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>8,216,144</b>	<b>(41,089)</b>	<b>8,175,055</b>
<b>OPERATING EXPENSES</b>			
Program services			
Patient care	4,616,685	-	4,616,685
Bereavement	197,608	-	197,608
Volunteer	83,621	-	83,621
Community outreach	195,712	-	195,712
Supporting services			
Administration	944,570	-	944,570
Fundraising	128,988	-	128,988
<b>TOTAL OPERATING EXPENSES</b>	<b>6,167,184</b>	<b>-</b>	<b>6,167,184</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>2,048,960</b>	<b>(41,089)</b>	<b>2,007,871</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>4,113,735</b>	<b>181,117</b>	<b>4,294,852</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 6,162,695</b>	<b>\$ 140,028</b>	<b>\$ 6,302,723</b>

**HOSPICE OF THE NORTH COAST**  
**STATEMENT OF ACTIVITIES**  
Year Ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Net patient service revenue	\$ 6,050,930	\$ -	\$ 6,050,930
Contributions	263,968	367,163	631,131
Resale shop sales (net of \$50,323 of sales taxes)			
including resale shop contributions of \$622,427	1,244,853	-	1,244,853
Less: resale shop expenses	(943,547)	-	(943,547)
Rental income	2,771	-	2,771
Interest	1,394	-	1,394
Other income	27,103	-	27,103
Net assets released from restrictions, satisfaction of program restrictions	<u>208,046</u>	<u>(208,046)</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<b>6,855,518</b>	<b>159,117</b>	<b>7,014,635</b>
<b>OPERATING EXPENSES</b>			
Program services			
Patient care	4,107,956	-	4,107,956
Bereavement	186,431	-	186,431
Volunteer	93,327	-	93,327
Community outreach	155,309	-	155,309
Supporting services			
Administration	930,202	-	930,202
Fundraising	<u>130,606</u>	<u>-</u>	<u>130,606</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>5,603,831</u></b>	<b><u>-</u></b>	<b><u>5,603,831</u></b>
<b>INCREASE IN NET ASSETS</b>	<b>1,251,687</b>	<b>159,117</b>	<b>1,410,804</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b><u>2,862,048</u></b>	<b><u>22,000</u></b>	<b><u>2,884,048</u></b>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 4,113,735</u></b>	<b><u>\$ 181,117</u></b>	<b><u>\$ 4,294,852</u></b>

**HOSPICE OF THE NORTH COAST**  
**STATEMENTS OF CASH FLOWS**  
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 2,007,871	\$ 1,410,804
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	111,447	126,004
Realized and unrealized gains on investments	(19,726)	-
(Increase) decrease in operating assets:		
Accounts receivable, net	(206,315)	(151,089)
Pledge receivable	10,000	(40,000)
Prepaid expenses	(11,848)	(19,488)
Increase (decrease) in operating liabilities:		
Accounts payable	51,754	2,066
Accrued salaries	25,321	28,528
Accrued compensated absences	(7,943)	46,620
Accrued expenses	2,648	1,192
Deferred revenue	(590)	(2,181)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,962,619</u>	<u>1,402,456</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in deposits	(5,261)	1,220
Net purchases of investments	(1,031,161)	-
Purchases of property and equipment	(128,642)	(38,360)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<u>(1,165,064)</u>	<u>(37,140)</u>
<b>CASH FLOWS USED BY FINANCING ACTIVITIES</b>		
Payments on long-term debt	-	(91,539)
<b>NET INCREASE IN CASH</b>	797,555	1,273,777
<b>CASH AT BEGINNING OF YEAR</b>	<u>2,206,923</u>	<u>933,146</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 3,004,478</u>	<u>\$ 2,206,923</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest paid	\$ -	\$ 1,624



**HOSPICE OF THE NORTH COAST**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended September 30, 2016 and 2015

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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.

Financial Statement Presentation

The accompanying financial statements are prepared on the accrual basis of accounting. The Organization's net assets and its revenues, expenses, gains and losses are reported based on the existence or absence of donor-imposed restrictions. The Organization reports information regarding its financial position and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- *Temporarily restricted net assets* consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.
- *Permanently restricted net assets* are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

The Organization had no permanently restricted net assets during the years ended September 30, 2016 and 2015.

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.

Fair Value Measurements

In accordance with Financial Accounting Standards Board Codification No. 820 (FASB ASC 820), 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 ASC 820 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.

**HOSPICE OF THE NORTH COAST**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended September 30, 2016 and 2015

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

Fair Value Measurements (continued)

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.

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.

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 statement 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 statement 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.

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.

**HOSPICE OF THE NORTH COAST**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended September 30, 2016 and 2015

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

Property and Equipment (continued)

Property and equipment are depreciated using the straight-line method over the estimated useful asset lives over 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.

Depreciation expense for the years ended September 30, 2016 and 2015 was \$111,447 and \$126,004, respectively.

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.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Restrictions on gifts of fixed assets or cash for the purchase of fixed assets expire when the asset is placed in service.

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.

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.

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 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. The Organization may be subject to tax on income which is not related to its exempt purpose. For the years ended September 30, 2016 and 2015, no such unrelated business income was reported and, therefore, no provision for income taxes has been made.

**HOSPICE OF THE NORTH COAST**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended September 30, 2016 and 2015

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

Income Taxes (continued)

The Organization follows the provisions 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. There are no amounts accrued in the financial statements related to uncertain tax positions for the years ended September 30, 2016 and 2015.

Subsequent Events

The Organization evaluated subsequent events through February 10, 2017, which is the date the financial statements were available to be issued.

NOTE 2. CONCENTRATIONS OF CREDIT RISK

Cash

The Organization maintains various bank accounts in Carlsbad, California. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization manages the risk by using institutions management believes to be high quality. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash as of September 30, 2016 and 2015 exceeded federally insured limits by \$2,008,736 and \$1,516,607, respectively.

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 95% and 92% of net patient service revenue for the years ended September 30, 2016 and 2015, respectively, was derived under federal and state third-party payor agreements. Accounts receivable from federal and state third-party reimbursement programs at September 30, 2016 and 2015 were 82% and 84%, respectively, of total accounts receivable.

The allowance for doubtful accounts was \$30,986 and \$21,852 at September 30, 2016 and 2015, respectively.

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 statement of financial position.

**HOSPICE OF THE NORTH COAST**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended September 30, 2016 and 2015

**NOTE 3. FAIR VALUE MEASUREMENTS**

The following table represents the financial instruments carried at fair value as of September 30, 2016 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	\$ 6,293	\$ -	\$ -	\$ 6,293
Mutual funds				
Stocks				
Emerging markets	35,023	-	-	35,023
Foreign	81,806	-	-	81,806
Large blend	292,571	-	-	292,571
Real estate	45,587	-	-	45,587
Small cap	26,219	-	-	26,219
Bonds				
Intermediate	101,961	-	-	101,961
Nontraditional	100,607	-	-	100,607
Short-term	101,480	-	-	101,480
World	101,606	-	-	101,606
ETP				
Developed markets	76,271	-	-	76,271
Large cap	81,463	-	-	81,463
Total assets at fair value	<u>\$ 1,050,887</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,050,887</u>

**NOTE 4. INVESTMENTS**

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

	2016
Interest, dividends and capital gains	\$ 26,863
Investment expense	(544)
Realized gains	526
Unrealized gains	19,200
	<u>\$ 46,045</u>

For the year ended September 30, 2015, the Organization had no financial investments.

**NOTE 5. PLEDGE RECEIVABLE**

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

	2016	2015
Pledge receivable	\$ <u>30,000</u>	\$ <u>40,000</u>
Current pledge receivable	\$ 10,000	\$ 40,000
Non-current pledge receivable	20,000	-
	<u>\$ 30,000</u>	<u>\$ 40,000</u>

**HOSPICE OF THE NORTH COAST**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended September 30, 2016 and 2015

NOTE 5. PLEDGE RECEIVABLE (continued)

100% of the pledge receivable is from a single donor. Management has considered the discount on the pledge extending beyond one year to be insignificant and has not recorded a discount.

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Building	\$ 2,167,231	\$ 2,167,231
Furniture and office equipment	118,363	131,695
Computer equipment	166,659	181,967
Leasehold improvements	261,002	119,027
	<u>2,713,255</u>	<u>2,599,920</u>
Less accumulated depreciation	(710,053)	(613,913)
	<u>2,003,202</u>	<u>1,986,007</u>
Land	749,232	749,232
	<u>\$ 2,752,434</u>	<u>\$ 2,735,239</u>

NOTE 7. LONG TERM LIABILITY

Long term liability consists of the following:

	<u>2016</u>	<u>2015</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 8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following:

	<u>2016</u>	<u>2015</u>
Pacifica House	\$ 50,000	\$ 112,668
Palliative care	34,378	-
Technology	28,387	-
Bereavement	13,370	-
Staff appreciation, education and salaries	12,627	63,958
Veterans transportation	616	-
Charity care	-	3,285
	<u>\$ 140,028</u>	<u>\$ 181,117</u>

NOTE 9. OPERATING LEASES

The Organization leases property in Encinitas, California on a lease that expires October 31, 2019. Total rent expense for these leases for the years ended September 30, 2016 and 2015 was \$187,220 and \$182,277, respectively. The Organization leases office equipment. Total rent expense for office equipment for the years ended September 30, 2016 and 2015 was \$25,112 and \$24,200, respectively.

**HOSPICE OF THE NORTH COAST**  
**NOTES TO FINANCIAL STATEMENTS**  
 Years Ended September 30, 2016 and 2015

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NOTE 9. OPERATING LEASES (continued)

Future minimum payments under these operating leases at September 30, 2016 are due as follows:

Year Ending September 30,	
2017	\$ 158,443
2018	159,713
2019	162,908
2020	<u>13,598</u>
	<u>\$ 494,662</u>

NOTE 10. RENTAL INCOME

The Organization leased portions of its building space to a company under an operating lease. The lease expired October 2014. Revenue under the lease agreement for the years ended September 30, 2016 and 2015 were \$0 and \$2,771, respectively.

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. For the year ended September 30, 2015, the Organization elected to match 100% of eligible employees' contributions up to 3% of gross pay. Effective November 1, 2015, the Organization elected may 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 the discretionary matching contribution. Contribution expense for the years ended September 30, 2016 and 2015 was \$100,033 and \$51,706, 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 deterrment on a date in the prior year selected by the CCF's Board of Directors.

**HOSPICE OF THE NORTH COAST**  
**NOTES TO FINANCIAL STATEMENTS**  
Years Ended September 30, 2016 and 2015

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

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, 2016 and 2015 was \$20,397 and \$18,807, respectively. The CCF made no contributions to the Organization for the years ended September 30, 2016 and 2015.

**NOTE 14. FUNCTIONAL ALLOCATION OF EXPENSES**

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by management.

**NOTE 15. 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 16. RECLASSIFICATIONS**

Certain items in the 2015 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.



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**Supplementary Information**

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**HOSPICE OF THE NORTH COAST**  
**SCHEDULE I - STATEMENT OF OPERATING EXPENSES**  
Year Ended September 30, 2016

	Program Services				Supporting Services		Total
	Patient Care	Bereavement	Volunteer	Community Outreach	Administration	Fundraising	
Bank charges	\$ -	\$ 5	\$ -	\$ -	\$ 1,830	\$ 1,665	\$ 3,500
Benefits and payroll taxes	627,301	26,164	17,567	22,280	115,846	19,622	828,780
Community relations	-	174	-	1,459	13,956	828	16,417
Computer	55,040	-	-	721	49,367	1,739	106,867
Consulting	9,192	1,532	1,532	-	3,064	-	15,320
Continuing education	10,789	1,181	2,444	470	15,297	2,741	32,922
Contract labor	137,261	-	-	-	15,266	-	152,527
Depreciation - nonresale shop	75,656	8,241	868	1,735	24,514	433	111,447
Diet and nutritional	11,126	-	-	-	-	-	11,126
Donor relations	-	-	-	-	-	3,473	3,473
Dues	14,678	870	-	70	11,413	-	27,031
Durable medical equipment	300,561	-	-	-	-	-	300,561
Facility	74,547	14,056	1,480	2,959	21,453	740	115,235
Functions and events	-	16,577	78	-	-	-	16,655
Insurance	4,416	-	-	-	34,255	-	38,671
Linens and uniforms	8,955	-	-	-	-	-	8,955
Marketing	-	-	-	23,254	9,966	2,500	35,720
Medical supplies	74,254	-	-	-	-	-	74,254
Mileage	95,480	2,705	-	10,564	7,449	491	116,689
Miscellaneous	6,635	-	1,732	-	4,653	349	13,369
Office	23,816	3,454	278	556	40,294	1,184	69,582
Other patient related	26,150	-	-	-	-	-	26,150
Pharmacy	208,668	-	-	-	-	-	208,668
Printing and publications	3,631	4,689	-	2,122	3,003	351	13,796
Professional services	24,563	-	-	-	34,285	-	58,848
Respite	7,790	-	-	-	-	-	7,790
Salaries	2,671,563	117,960	56,959	128,329	532,824	92,272	3,599,907
Skilled nursing faculty	107,458	-	-	-	-	-	107,458
Telephone	37,155	-	683	1,193	5,835	600	45,466
	<u>\$ 4,616,685</u>	<u>\$ 197,608</u>	<u>\$ 83,621</u>	<u>\$ 195,712</u>	<u>\$ 944,570</u>	<u>\$ 128,988</u>	<u>\$ 6,167,184</u>

See independent auditors' report.

**HOSPICE OF THE NORTH COAST**  
**SCHEDULE II - STATEMENT OF OPERATING EXPENSES**  
Year Ended September 30, 2015

	Program Services				Supporting Services		Total
	Patient Care	Bereavement	Volunteer	Community Outreach	Administration	Fundraising	
Bank charges	\$ -	\$ -	\$ -	\$ -	\$ 1,014	\$ 524	\$ 1,538
Benefits and payroll taxes	558,274	25,117	12,978	17,570	117,185	17,695	748,819
Community relations	-	166	30	2,542	2,042	655	5,435
Computer	39,195	-	-	5,554	30,932	1,470	77,151
Consulting	-	350	-	2,013	2,028	184	4,575
Continuing education	8,088	-	599	410	9,552	3,011	21,660
Contract labor	116,296	-	-	-	-	-	116,296
Depreciation - nonresale shop	93,829	-	-	-	32,175	-	126,004
Diet and nutritional	14,091	-	-	-	-	-	14,091
Donor relations	-	-	-	-	-	8,311	8,311
Dues	14,519	1,755	-	70	9,677	260	26,281
Durable medical equipment	236,792	-	-	-	-	-	236,792
Facility	54,637	20,967	3,700	6,167	28,367	1,233	115,071
Functions and events	-	23,038	-	407	174	-	23,619
Insurance	4,585	-	-	-	30,020	-	34,605
Linens and uniforms	11,667	-	-	-	-	-	11,667
Marketing	-	-	-	16,779	7,191	-	23,970
Medical supplies	61,320	-	-	-	-	-	61,320
Mileage	80,266	2,999	467	4,695	4,490	594	93,511
Miscellaneous	6,661	89	6,958	-	1,770	442	15,920
Office	21,332	1,852	94	1,232	37,539	4,118	66,167
Other patient related	18,768	-	-	-	-	-	18,768
Pharmacy	207,233	-	-	-	-	-	207,233
Printing and publications	1,105	5,870	-	2,039	4,617	829	14,460
Professional services	28,848	-	-	-	25,959	-	54,807
Respite	5,870	-	-	-	-	-	5,870
Salaries	2,385,246	104,228	67,757	95,073	580,274	90,680	3,323,258
Skilled nursing faculty	107,939	-	-	-	-	-	107,939
Telephone	31,395	-	744	758	5,196	600	38,693
	<u>\$ 4,107,956</u>	<u>\$ 186,431</u>	<u>\$ 93,327</u>	<u>\$ 155,309</u>	<u>\$ 930,202</u>	<u>\$ 130,606</u>	<u>\$ 5,603,831</u>

See independent auditors' report.