
HOSPICE OF THE NORTH COAST
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended September 30, 2017 and 2016

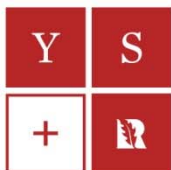


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Years Ended September 30, 2017 and 2016

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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, 2017 and 2016, 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 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, 2017 and 2016, 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.

Report on Supplementary Information – Statements of Operating Expenses

Our audits were conducted for the purpose of forming an opinion on the financial statements as of and for the years ended September 30, 2017 and 2016 as a whole. The accompanying 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 as of and for the years ended September 30, 2017 and 2016, 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 as of and for the years ended September 30, 2017 and 2016 is fairly stated in all material respects in relation to the combined financial statements as a whole.

YSR CPA Group, P.C.

Encinitas, California
February 21, 2018

HOSPICE OF THE NORTH COAST
STATEMENTS OF FINANCIAL POSITION
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,178,016	\$ 3,004,478
Accounts receivable, net of allowance for doubtful accounts of \$40,612 (2017) and \$30,986 (2016)	955,627	851,364
Pledge receivable	25,000	10,000
Resale shop inventory	72,631	-
Prepaid expenses	<u>130,500</u>	<u>114,509</u>
TOTAL CURRENT ASSETS	4,361,774	3,980,351
NONCURRENT ASSETS		
Investments	2,699,352	1,050,887
Property and equipment, net of accumulated depreciation	2,725,952	2,752,434
Noncurrent pledge receivable	-	20,000
Deposits	<u>-</u>	<u>15,042</u>
TOTAL NONCURRENT ASSETS	<u>5,425,304</u>	<u>3,838,363</u>
TOTAL ASSETS	<u>\$ 9,787,078</u>	<u>\$ 7,818,714</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 172,306	\$ 155,764
Accrued salaries	168,381	144,677
Accrued compensated absences	154,245	145,830
Accrued expenses	4,183	4,720
Other liabilities	<u>1,330</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	500,445	450,991
FORGIVABLE NOTE	<u>1,065,000</u>	<u>1,065,000</u>
TOTAL LIABILITIES	1,565,445	1,515,991
NET ASSETS		
Unrestricted		
Board-designated capital reserve	405,346	-
Undesignated	7,572,057	6,162,695
Temporarily restricted	<u>244,230</u>	<u>140,028</u>
TOTAL NET ASSETS	<u>8,221,633</u>	<u>6,302,723</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,787,078</u>	<u>\$ 7,818,714</u>

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

HOSPICE OF THE NORTH COAST
STATEMENT OF ACTIVITIES
Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Net patient service revenue	\$ 7,916,236	\$ -	\$ 7,916,236
Contributions	123,619	369,658	493,277
Resale shop sales (net of \$46,787 of sales taxes) including resale shop contributions of \$592,327	1,257,285	-	1,257,285
Less: resale shop expenses	(912,247)	-	(912,247)
Special events, net direct expenses of \$68,140	98,151	-	98,151
Investment income	148,237	-	148,237
Interest	2,612	-	2,612
Net assets released from restrictions, satisfaction of program restrictions	<u>265,456</u>	<u>(265,456)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	8,899,349	104,202	9,003,551
OPERATING EXPENSES			
Program services:			
Patient care	5,355,044	-	5,355,044
Bereavement	216,607	-	216,607
Volunteer	121,822	-	121,822
Community outreach	322,573	-	322,573
Supporting services:			
Administration	926,915	-	926,915
Fundraising	<u>141,680</u>	<u>-</u>	<u>141,680</u>
TOTAL OPERATING EXPENSES	<u>7,084,641</u>	<u>-</u>	<u>7,084,641</u>
INCREASE IN NET ASSETS	1,814,708	104,202	1,918,910
NET ASSETS, Beginning of Year	<u>6,162,695</u>	<u>140,028</u>	<u>6,302,723</u>
NET ASSETS, End of Year	<u><u>\$ 7,977,403</u></u>	<u><u>\$ 244,230</u></u>	<u><u>\$ 8,221,633</u></u>

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
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 direct expenses of \$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)	-
TOTAL SUPPORT AND REVENUE	8,216,144	(41,089)	8,175,055
OPERATING EXPENSES			
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
TOTAL OPERATING EXPENSES	6,167,184	-	6,167,184
INCREASE (DECREASE) IN NET ASSETS	2,048,960	(41,089)	2,007,871
NET ASSETS, Beginning of Year	4,113,735	181,117	4,294,852
NET ASSETS, End of Year	\$ 6,162,695	\$ 140,028	\$ 6,302,723

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

HOSPICE OF THE NORTH COAST
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,918,910	\$ 2,007,871
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	118,562	111,447
Realized and unrealized gain on investments	(123,493)	(19,726)
Donated inventory	(72,631)	-
(Increase) decrease in operating assets:		
Accounts receivable, net	(104,263)	(206,315)
Pledge receivable	5,000	10,000
Prepaid expenses	(15,991)	(11,848)
Deposits	15,042	(5,261)
Increase (decrease) in operating liabilities:		
Accounts payable	16,542	51,754
Accrued salaries	23,704	25,321
Accrued compensated absences	8,415	(7,943)
Accrued expenses	(537)	2,648
Deferred revenue	-	(590)
Other liabilities	1,330	-
	<u>1,790,590</u>	<u>1,957,358</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,790,590	1,957,358
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments	(1,524,972)	(1,031,161)
Purchases of property and equipment	(92,080)	(128,642)
	<u>(1,617,052)</u>	<u>(1,159,803)</u>
NET CASH USED BY INVESTING ACTIVITIES	(1,617,052)	(1,159,803)
NET INCREASE IN CASH	173,538	797,555
CASH AT BEGINNING OF YEAR	<u>3,004,478</u>	<u>2,206,923</u>
CASH AT END OF YEAR	\$ <u><u>3,178,016</u></u>	\$ <u><u>3,004,478</u></u>

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

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

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.

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*
 - Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
 - The Board-designated capital reserves include resources that have been designated by the Board of Directors and consists of amounts held in reserve for capital expenditures.
- *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, 2017 and 2016.

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, 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.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

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

Fair Value Measurements (continued)

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 or 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.

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.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

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

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

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

Contributions and Grants

Contributions and grants are recognized when unconditionally promised to or received by the Organization. Contributions and grants are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restricted 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. Restrictions on gifts of property and equipment or cash for the purchase of property and equipment expire when the asset is placed in service.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

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

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.

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, 2017 and 2016, 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, 2017 and 2016.

NOTE 2. 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, 2017 and 2016, the Organization exceeded federally insured limits by \$2,187,967 and \$2,008,736, respectively. Management has not experienced any losses in the past and does not believe the Organization is exposed to any significant risk.

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 89% and 92% of net patient service revenue for the years ended September 30, 2017 and 2016, respectively, was derived under federal and state third-party payor agreements. Accounts receivable from federal and state third-party reimbursement programs at September 30, 2017 and 2016 were 86% and 82%, 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.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

NOTE 3. FAIR VALUE MEASUREMENTS

The following table represents the financial instruments carried at fair value as of September 30, 2017, 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	\$ 1,001,669	\$ -	\$ -	\$ 1,001,669
Mutual funds:				
Stocks:				
Emerging markets	159,941	-	-	159,941
Foreign	314,534	-	-	314,534
Large blend	188,328	-	-	188,328
Index	94,666	-	-	94,666
Real estate	149,709	-	-	149,709
Small cap	146,082	-	-	146,082
Bonds:				
Intermediate	81,280	-	-	81,280
Nontraditional	320,090	-	-	320,090
Short-term	80,634	-	-	80,634
World	162,419	-	-	162,419
Total assets at fair value	<u>\$ 2,699,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,699,352</u>

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>

See accompanying independent auditors' report.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

NOTE 4. INVESTMENTS

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

	<u>2017</u>	<u>2016</u>
Interest, dividends and capital gain	\$ 30,951	\$ 26,863
Investment expense	(769)	(544)
Realized gain	44,007	526
Unrealized gain	<u>74,048</u>	<u>19,200</u>
	<u>\$ 148,237</u>	<u>\$ 46,045</u>

NOTE 5. PLEDGE RECEIVABLE

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

	<u>2017</u>	<u>2016</u>
Pledge receivable	\$ <u>25,000</u>	\$ <u>30,000</u>
Current pledge receivable	\$ 25,000	\$ 10,000
Non-current pledge receivable	<u>-</u>	<u>20,000</u>
Total pledge receivable	<u>\$ 25,000</u>	<u>\$ 30,000</u>

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>2017</u>	<u>2016</u>
Building	\$ 2,167,231	\$ 2,167,231
Furniture and office equipment	120,701	118,363
Computer equipment	224,987	166,659
Leasehold improvements	<u>287,830</u>	<u>261,002</u>
	2,800,749	2,713,255
Less accumulated depreciation	<u>(824,029)</u>	<u>(710,053)</u>
	1,976,720	2,003,202
Land	<u>749,232</u>	<u>749,232</u>
	<u>\$ 2,725,952</u>	<u>\$ 2,752,434</u>

Depreciation expense for the years ended September 30, 2017 and 2016 was \$118,562 and \$111,447, respectively. Depreciation expense of \$1,416 for the year ended September 30, 2017 has been included in the resale shop expenses on the statements of activities.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

NOTE 7. FORGIVEABLE NOTE

Long term liability consists of the following:

	<u>2017</u>	<u>2016</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>2017</u>	<u>2016</u>
Pacifica House	\$ 39,235	\$ 50,000
Palliative care	9,213	34,378
Technology	72,242	28,837
Creative arts	3,765	-
Bereavement	24,000	13,570
Staff appreciation, education and salaries	84,475	12,627
Malawi partner training	9,800	616
Staff rolling bags	<u>1,500</u>	<u>-</u>
	\$ <u>244,230</u>	\$ <u>140,028</u>

NOTE 9. 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 annual rent increases every November on the anniversary of the start date by 2%. Total rent expense including common area maintenance and property taxes for this lease for the years ended September 30, 2017 and 2016 was \$194,200 and \$187,220, respectively.

The Organization also has a lease on office equipment that expires in December 2019. Payments are \$2,153 per month. Total expense including sales and use tax for office equipment for the years ended September 30, 2017 and 2016 was \$28,343 and \$25,112, respectively.

Minimum future lease payments under these operating lease agreements at September 30, 2017 are due as follows:

Year Ending September 30,	
<u>2018</u>	\$ 185,549
2019	188,744
2020	<u>20,057</u>
	\$ <u>394,350</u>

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

NOTE 10. 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. Effective January 2017, the employer matching contribution was set at 5%. Contribution expense for the years ended September 30, 2017 and 2016 was \$145,108 and \$100,033, respectively.

NOTE 11. 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 12. 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, 2017 and 2016 was \$22,269 and \$20,397, respectively. The CCF made no contributions to the Organization for the years ended September 30, 2017 and 2016.

NOTE 13. 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 the Organization's management.

HOSPICE OF THE NORTH COAST
NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

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 2016 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.

NOTE 16. SUBSEQUENT EVENTS

The Organization evaluated subsequent events through February 21, 2018, the date which the financial statements were available to be issued.

Supplementary Information

HOSPICE OF THE NORTH COAST
SCHEDULE I - SCHEDULE OF OPERATING EXPENSES
Year Ended September 30, 2017

	Program Services				Supporting Services		Total
	Patient Care	Bereavement	Volunteer	Community Outreach	Administration	Fundraising	
Bank charges	\$ -	\$ 5	\$ -	\$ -	\$ 4,302	\$ 1,805	6,112
Benefits and payroll taxes	734,237	33,100	17,857	46,669	111,138	18,922	961,923
Community relations	-	-	-	-	599	1,122	1,721
Computer	65,381	9	149	1,319	135,774	1,440	204,072
Consulting	8,293	-	-	31,315	9,075	-	48,683
Continuing education	28,750	950	1,614	2,002	5,939	496	39,751
Contract labor	156,186	-	-	-	30,333	-	186,519
Depreciation - nonresale shop	81,805	7,808	964	1,928	23,678	964	117,147
Diet and nutritional	14,057	-	-	-	-	-	14,057
Direct Fundraising	-	-	-	-	-	9,121	9,121
Dues	9,158	2,615	93	-	11,731	259	23,856
Durable medical equipment	323,348	-	-	-	-	-	323,348
Facility	103,760	14,080	1,738	3,477	23,467	1,738	148,260
Functions and events	-	9,265	-	-	-	-	9,265
Insurance	6,000	-	-	-	37,651	-	43,651
Linens and uniforms	8,353	-	-	-	-	-	8,353
Marketing	-	-	-	35,422	-	-	35,422
Medical supplies	79,986	-	-	-	-	-	79,986
Mileage	102,795	3,213	692	10,515	2,700	634	120,549
Miscellaneous	3,133	1,293	8,639	-	19,127	426	32,618
Office	8,408	1,428	145	688	60,403	1,232	72,304
Other patient related	62,651	-	-	-	-	-	62,651
Pharmacy	258,012	-	-	-	-	-	258,012
Printing and publications	2,393	3,500	-	1,686	2,114	709	10,402
Professional services	-	-	-	-	16,915	-	16,915
Recruiting	4,045	-	35	230	758	-	5,068
Respite / GIP	11,278	-	-	-	-	-	11,278
Salaries	2,969,636	139,341	89,189	185,801	424,102	102,262	3,910,331
Skilled Nursing Facility	271,461	-	-	-	-	-	271,461
Telephone	41,918	-	707	1,521	7,109	550	51,805
	<u>\$ 5,355,044</u>	<u>\$ 216,607</u>	<u>\$ 121,822</u>	<u>\$ 322,573</u>	<u>\$ 926,915</u>	<u>\$ 141,680</u>	<u>\$ 7,084,641</u>

See accompanying independent auditors' report.

HOSPICE OF THE NORTH COAST
SCHEDULE II - SCHEDULE 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 accompanying independent auditors' report.