

MISSION HOSPICE & HOME CARE, INC.

FINANCIAL STATEMENTS

December 31, 2017

MISSION HOSPICE & HOME CARE, INC.
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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mission Hospice & Home Care, Inc.
San Mateo, California

We have audited the accompanying financial statements of Mission Hospice & Home Care, Inc. a California non-profit corporation, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 Mission Hospice & Home Care, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Mission Hospice & Home Care, Inc.'s financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Voecker Kristofferson and Co.

San Mateo, California
November 28, 2018

MISSION HOSPICE AND HOME CARE, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2017
(With Comparative Totals for December 31, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Assets					
Current Assets:					
Cash and cash equivalents (Note 2)	\$ 1,273,263	\$ 728,887	\$ -	\$ 2,002,150	\$ 2,175,167
Funds held in trust	23,983	-	-	23,983	41,178
Investments (Note 7)	3,544,431	-	49,585	3,594,016	3,210,688
Patient accounts receivable, net of allowances of \$267,090 & \$446,827 for 2017 & 2016, respectively	3,267,799	-	-	3,267,799	3,665,216
Pledges receivable, current portion (Note 6)	-	300,681	-	300,681	372,500
Bequests receivable	-	-	-	-	500,000
Prepaid expenses	141,684	-	-	141,684	222,394
Total Current Assets	<u>8,251,160</u>	<u>1,029,568</u>	<u>49,585</u>	<u>9,330,313</u>	<u>10,187,143</u>
Property and Equipment (Note 8):					
Land	2,303,195	-	-	2,303,195	1,445,694
Buildings	3,371,578	-	-	3,371,578	1,613,311
Leasehold improvements	159,992	-	-	159,992	159,992
Furniture and fixtures	243,222	-	-	243,222	243,222
Equipment	413,225	-	-	413,225	413,225
Construction in progress	491,229	-	-	491,229	359,254
Total Property and Equipment	6,982,441	-	-	6,982,441	4,234,698
Less accumulated depreciation and amortization	(840,138)	-	-	(840,138)	(718,381)
Total Property and Equipment, Net	<u>6,142,303</u>	<u>-</u>	<u>-</u>	<u>6,142,303</u>	<u>3,516,317</u>
Other Assets:					
Pledges receivables, long-term portion (Note 6)	-	49,923	-	49,923	87,066
Security deposits	75,982	-	-	75,982	77,281
Total Other Assets	<u>75,982</u>	<u>49,923</u>	<u>-</u>	<u>125,905</u>	<u>164,347</u>
Total Assets	<u>\$ 14,469,445</u>	<u>\$ 1,079,491</u>	<u>\$ 49,585</u>	<u>\$ 15,598,521</u>	<u>\$ 13,867,807</u>

See accompanying notes to financial statements.

MISSION HOSPICE AND HOME CARE, INC.
STATEMENT OF FINANCIAL POSITION (Continued)
December 31, 2017
(With Comparative Totals for December 31, 2016)

	2017				2016
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
Liabilities and Net Assets					
Liabilities					
Current Liabilities:					
Accounts payable	\$ 63,025	\$ -	\$ -	\$ 63,025	\$ 175,750
Accrued payroll and paid time off	1,733,699	-	-	1,733,699	1,330,314
Deferred revenue	-	-	-	-	39,272
Accrued expenses and contractual allowances	2,020,522	-	-	2,020,522	1,981,299
Funds held in trust	23,983	-	-	23,983	41,178
Total Current Liabilities	<u>3,841,229</u>	<u>-</u>	<u>-</u>	<u>3,841,229</u>	<u>3,567,813</u>
Long-Term Liabilities:					
Notes payable (Note 9)	<u>2,900,000</u>	<u>-</u>	<u>-</u>	<u>2,900,000</u>	<u>1,500,000</u>
Total Long-Term Liabilities	<u>2,900,000</u>	<u>-</u>	<u>-</u>	<u>2,900,000</u>	<u>1,500,000</u>
Total Liabilities	<u>6,741,229</u>	<u>-</u>	<u>-</u>	<u>6,741,229</u>	<u>5,067,813</u>
Net Assets:					
Unrestricted	7,728,216	-	-	7,728,216	7,822,143
Temporarily restricted (Note 3)	-	1,079,491	-	1,079,491	928,266
Permanently restricted (Note 4)	-	-	49,585	49,585	49,585
Total Net Assets	<u>7,728,216</u>	<u>1,079,491</u>	<u>49,585</u>	<u>8,857,292</u>	<u>8,799,994</u>
Total Liabilities and Net Assets	<u>\$ 14,469,445</u>	<u>\$ 1,079,491</u>	<u>\$ 49,585</u>	<u>\$ 15,598,521</u>	<u>\$ 13,867,807</u>

See accompanying notes to financial statements.

MISSION HOSPICE AND HOME CARE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2017
(With Comparative Totals for Year Ended December 31, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, gains, and support:					
Patient service revenue (net of contractual allowances and discounts) (Note 2)	\$ 22,534,228	\$ -	\$ -	\$ 22,534,228	\$ 21,175,832
Grants and contracts	18,000	1,041,000	-	1,059,000	360,500
Special events revenue, net of direct expenses \$191,250 and \$127,185 respectively	171,945	319,686	-	491,631	375,538
Donations, bequests and memorials	263,702	495,296	-	758,998	1,369,797
In-kind revenue	-	-	-	-	10,299
Net investment income (Note 7)	413,143	938	-	414,081	225,611
Net assets released from restrictions (Note 5)	1,705,695	(1,705,695)	-	-	-
Total Revenue, Gains and Support	<u>25,106,713</u>	<u>151,225</u>	<u>-</u>	<u>25,257,938</u>	<u>23,517,577</u>
Expenses:					
Program Services:					
Hospice	17,954,488	-	-	17,954,488	17,108,388
Advanced home care	3,019,443	-	-	3,019,443	3,292,316
Transitions	183,177	-	-	183,177	215,990
Mission houses	2,551,394	-	-	2,551,394	2,181,170
Total Program Services	<u>23,708,502</u>	<u>-</u>	<u>-</u>	<u>23,708,502</u>	<u>22,797,864</u>
Supporting Services:					
Management and general	1,066,258	-	-	1,066,258	934,208
Development	425,880	-	-	425,880	470,748
Total Supporting Services	<u>1,492,138</u>	<u>-</u>	<u>-</u>	<u>1,492,138</u>	<u>1,404,956</u>
Total Expenses	<u>25,200,640</u>	<u>-</u>	<u>-</u>	<u>25,200,640</u>	<u>24,202,820</u>
Change in Net Assets	\$ (93,927)	\$ 151,225	\$ -	\$ 57,298	\$ (685,243)
Net Assets:					
Beginning of Year	7,822,143	928,266	49,585	8,799,994	9,485,237
End of Year	<u>\$ 7,728,216</u>	<u>\$ 1,079,491</u>	<u>\$ 49,585</u>	<u>\$ 8,857,292</u>	<u>\$ 8,799,994</u>

See accompanying notes to financial statements.

MISSION HOSPICE AND HOME CARE, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2017
(With Comparative Totals for Year Ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 57,298	\$ (685,243)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	(179,737)	(119,453)
Depreciation and amortization	121,757	160,298
Net realized and unrealized gain on investments	(340,972)	(175,498)
Decrease/(Increase) in accounts receivable	577,154	(621,334)
Decrease in pledges receivable	108,962	396,142
Decrease/(Increase) in bequest receivable	500,000	(500,000)
Decrease/(Increase) in prepaid expenses	80,710	(86,274)
Decrease/(Increase) in deposits	1,299	(9,771)
Decrease in accounts payable	(112,725)	(144,152)
Increase in accrued payroll and paid time off	403,385	386,951
Increase in accrued expenses and contractual allowances	39,223	1,787,438
(Decrease)/Increase in deferred revenue	(39,272)	25,664
Net Cash Provided by Operating Activities	<u>1,217,082</u>	<u>414,768</u>
Cash Flows From Investing Activities:		
Proceeds from sale of investments	-	401,388
Purchases of investments	(42,356)	(465,015)
Purchases of property and equipment	(1,347,743)	(359,254)
Net Cash Used in Investing Activities	<u>(1,390,099)</u>	<u>(422,881)</u>
 Net Decrease in Cash and Cash Equivalents	 (173,017)	 (8,113)
Cash and Cash Equivalents:		
Beginning of year	2,175,167	2,183,280
End of year	<u>\$ 2,002,150</u>	<u>\$ 2,175,167</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 95,223</u>	<u>\$ 53,427</u>
Noncash Investing and Financing Activities:		
Acquisition of property through issuance of note payable	<u>\$ 1,400,000</u>	<u>\$ -</u>

See accompanying notes to financial statements

MISSION HOSPICE AND HOME CARE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017
(With Comparative Totals for Year Ended December 31, 2016)

	Program Services						Development	Total 12/31/2017	Total 12/31/2016
	Hospice	Advanced Home Care	Transitions	Mission Houses	Total Program Services	Management and General			
Expenses:									
Salaries & Wages	\$ 10,481,684	\$ 2,094,483	\$ 142,131	\$ 1,553,289	\$ 14,271,587	\$ 570,854	\$ 300,321	\$ 15,142,762	\$ 13,876,678
Payroll Taxes	1,022,013	185,984	11,513	171,115	1,390,625	49,140	19,450	1,459,215	998,549
Employee Benefits	755,203	161,387	8,605	131,721	1,056,916	38,896	21,261	1,117,073	1,327,373
Total Personnel Costs	12,258,900	2,441,854	162,249	1,856,125	16,719,128	658,890	341,032	17,719,050	16,202,600
Advertising & Marketing	51,524	407	24	346	52,301	492	6,435	59,228	50,605
Computer Support Expense	256,471	73,634	4,452	10,648	345,205	89,035	25,193	459,433	483,307
Depreciation & Amortization Expense	23,899	6,858	416	81,024	112,197	8,313	1,247	121,757	160,298
Dues, Licenses & Subscriptions	66,114	3,103	188	1,170	70,575	3,761	2,633	76,969	85,728
Employee Education/Training/Conference	108,277	26,509	1,793	6,030	142,609	25,951	3,918	172,478	83,581
Equipment Lease	19,791	11,972	136	271	32,170	2,714	407	35,291	31,963
Insurance	47,287	13,353	809	3,550	64,999	16,186	2,428	83,613	89,713
Interest & Fees	-	-	-	64,529	64,529	-	-	64,529	59,312
Office Supplies	25,923	6,715	282	11,916	44,836	8,994	4,287	58,117	107,751
Miscellaneous Expense	5,370	1,541	93	2,216	9,220	1,868	280	11,368	2,236
Patient Care Expenses	4,415,309	192,363	1,989	414,645	5,024,306	-	-	5,024,306	5,573,439
Postage & Printing	73,525	22,706	983	2,013	99,227	2,880	5,138	107,245	71,482
Professional Fees	213,740	101,092	2,768	7,444	325,044	55,365	8,305	388,714	477,388
Property Tax	-	-	-	36,562	36,562	-	-	36,562	29,167
Rent	215,405	62,734	3,802	-	281,941	76,041	11,406	369,388	341,920
Repairs & Maintenance	4,524	1,017	62	15,024	20,627	1,233	185	22,045	54,710
Telephone	67,094	19,167	1,117	6,067	93,445	22,336	3,870	119,651	82,779
Travel & Training	38,893	16,500	928	6,094	62,415	70,480	5,858	138,753	123,767
Utilities	62,442	17,918	1,086	25,720	107,166	21,719	3,258	132,143	91,074
Total Operating Costs	5,695,588	577,589	20,928	695,269	6,989,374	407,368	84,848	7,481,590	8,000,220
Total Expenses	\$ 17,954,488	\$ 3,019,443	\$ 183,177	\$ 2,551,394	\$ 23,708,502	\$ 1,066,258	\$ 425,880	\$ 25,200,640	\$ 24,202,820

See accompanying notes to financial statements.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES

General

Mission Hospice & Home Care, Inc. (the Agency) is a 501(c)(3) non-profit corporation founded in 1979. It is an independent, non-sectarian charitable organization dedicated to serving those with life-limited illnesses. The original program was Hospice Care. Today the Agency provides a suite of programs listed below that together offer a "continuum of care" in a home-based environment in San Mateo, Santa Clara, and San Francisco counties. The main sources of revenue are 1) fees for service from government private insurance carriers as well as patient-paid payments and 2) donor contributions and grants.

Description of Major Programs

Mission Hospice & Home Care's programs together provide a *Continuum of Care* designed to serve patients – and their families – at every stage of a life-limiting illness, from **Community Education** about advance care planning, to **Bereavement Support** services for those who are grieving a loss.

The core of the organization's work remains caring for people throughout the last year of life through *Transitions*, *Advanced Care (palliative home health care)* and *Hospice. Mission Houses* – the two hospice houses in San Mateo County – provides a peaceful, home-like setting for patients at the very end of life whose comfort cannot be managed in their own homes.

Advanced Care provides a full range of medical services to patients who are homebound with a skilled need. This palliative home health program is designed for patients with a life-limiting illness who wish to continue treatment options such as chemotherapy or radiation, while focusing on symptom management and rehabilitation. *Advanced Care* is prescribed by a patient's doctor and is covered by Medicare, Medi-Cal or private insurance.

Hospice provides compassionate comfort care – medical care, pain management, emotional and spiritual support – to patients at the end of life. This program is designed for patients with a terminal illness of six months or less, who wish to maintain quality of life. *Hospice* is chosen by the patient with a doctor's consent, and is covered by Medicare, Medi-Cal or private insurance.

Transitions provides emotional support and nurse consultation for patients who do not medically qualify for either Advanced Care or Hospice. This program is designed for patients with a life-limiting illness of one year or less, who may receive life-prolonging treatments but do not require medical care in the home. *Transitions* is offered free of charge and is funded by donations and grants.

Mission Houses, located in San Mateo and Redwood City, the hospice houses provide peaceful, homelike environments specifically designed for patients in the last weeks of life who need intensive, round-the-clock symptom management that cannot be provided at home.

Mission Hospice offers **Bereavement Support** services to patient families and the wider community through a combination of support groups and individual grief counseling for those who are grieving or those who are facing the death of a loved one.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - NATURE OF ACTIVITIES (Continued)

Educational Programs for community members and health providers are designed to help people understand and discuss their options for end-of-life care in advance of critical need, through a series of community forums, clinical staff presentations and in-service/continuing education support for clinical staff.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The financial statements of the Agency have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables, and other liabilities. Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Agency classifies its net assets and changes in net assets as follows:

Unrestricted net assets:

that portion of net assets that is neither time nor purpose restricted by donors;

Temporarily restricted net assets:

that portion of net assets whose use is limited by donor-imposed stipulations that can be fulfilled and removed by actions of the Agency or by the passage of time;

Permanently restricted net assets:

that portion of net assets that have been restricted in perpetuity.

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, liabilities, net assets, and revenues and expenses for the reporting period. Actual results could differ from those estimates. Significant estimates included in or affecting the presentation of the accompanying financial statements include the Medicare CAP risk accrual.

Concentration of Revenue Sources

During the year ended December 31, 2017, the Agency had one major revenue source; Centers for Medicare and Medicaid Services that accounted for approximately 90% of the total revenue of the Agency.

Concentration of Credit Risk

Financial instruments that potentially subject the Agency to concentrations of credit risk consist principally of uninsured cash balances. The Agency places its cash deposits with high-credit quality financial institutions. At times, balances in the Agency's cash accounts may exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. At December 31, 2017, balances above the insured limits were approximately \$1,525,000.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates are negligible. These are generally investments with maturity dates within three months of their acquisition date. Not included as cash equivalents are funds restricted as to their use, regardless of liquidity or the maturity dates of investments.

Patient Accounts Receivable

Accounts receivable from patient revenue are stated net of an allowance for revenue adjustments as described below under "Program Revenue". The allowance is recorded based upon the historical experience of the Agency with the insurer, the age of the receivable and other factors specific to each patient.

Pledges Receivable

As further discussed in Note 6, pledges are included in the financial statements as pledges receivable and recognized as revenue in the period pledged. Pledges extending beyond one year are discounted to recognize the present value of the future cash flows. In subsequent years, this discount is accreted and recorded as additional contribution revenue in accordance with donor imposed restrictions. The Agency considers pledges receivable to be fully collectible; accordingly, no allowance for uncollectible pledges has been made.

Prepaid Expenses

Prepaid expense balances are calculated and adjusted at year end to properly charge funds in the period benefited.

Property and Equipment

The Agency policy is to capitalize assets with a unit cost of \$5,000 or greater. The Agency records purchased property and equipment at cost, and donated fixed assets at fair market value on the date received. As further discussed in Note 8, property and equipment is depreciated by the straight-line method over the estimated useful lives of the respective assets which range from three to forty years.

Program Revenue

The Agency recognizes revenue from patient service on the accrual basis of accounting as the services are delivered to patients.

Revenue is earned for patient care services primarily from Medicare, Medi-Cal and private insurers. Reimbursement rates are set annually by each insurer for specific services, and the Agency bills according to its understanding of the appropriate rate for the services delivered to each patient. Patient invoices are subject to approval by each insurer, and the Agency estimates revenue for certain services not yet completed. Because the scope of services and the required documentation are subject to insurer approval and also subject in some cases to interpretation and estimation, the Agency provides an allowance for revenue adjustments to cover estimated adjustments made to billed and estimated service revenue by the insurers. The allowance is recorded as a reduction of revenue in the statement of operations and as a reduction in patient accounts receivable in the balance sheet.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program Revenue (Continued)

Patient revenue, net of any contractual allowances and discounts is comprised of the following:

Medicare	\$ 19,874,588
Medi-Cal Fees	416,050
Private Fees for Services	<u>2,243,590</u>
Total	<u>\$ 22,534,228</u>

Contributions and Grants

Unrestricted contributions are recorded as unrestricted revenue upon receipt. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributions with donor restrictions are recognized as temporarily restricted revenue. Generally, donors place restrictions for a specific time period and/or a specific use or purpose. Once donor restrictions are satisfied, temporarily restricted revenue is released and reclassified as unrestricted revenue. Restrictions on gifts of property or equipment or gifts restricted to the purchase of property or equipment are satisfied when the assets are placed in service. Conditional contributions are not recorded as revenue until the conditions are met.

Bequests are recorded as revenue when the Agency receives notification that the court declares the will is valid and an estimate is determinable.

Contributed Assets – Contributed marketable securities and other non-cash donations are recorded as contributions at their estimated fair market values on the date of donation. Securities are immediately sold.

In-Kind Contributions – Donated equipment and other donated goods are recorded at their estimate fair market value as of the date of the donation. Contributed services, which require a specialized skill and for which the Agency would have paid if not donated, are recorded at the estimated fair market value at the time the services are rendered. The agency also receives donated services that do not require specific expertise but which are nonetheless central to its operations. These contributed services are not reflected in the financial statements. For the year ended December 31, 2017, the agency received 14,071 hours of contributed services.

Grants that do not represent exchange transactions are recognized as contributions.

Direct Program Expenses and Indirect Expense Allocations

All Program and Support Services expenses have been summarized on a functional basis in the statement of activities and are based on actual cost, when available. Indirect expenses are allocated to programs and services using, salaries, headcount, square footage, time, usage, or benefit, whichever is most appropriate, by line item.

Advertising

The Agency expenses all advertising costs in the period incurred.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mission Hospice Endowment Fund

The Endowment Fund was established to provide a permanent source of funding for the charitable work of the Agency. The Endowment Fund is dedicated to the support of the Agency including without limitation its provision of care to terminally ill patients and their families. Only funds that are permanently restricted by the Donor will be added to the Endowment Fund. Gifts may be designated within the Endowment Fund to support specific programs.

As required by GAAP, net assets associated with an endowment fund, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Agency has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the funds, (2) The purposes of the Agency and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investments, (6) Other resources, and (7) The investment policies of the Agency.

Investment Income

Investment income including dividends, interest and similar payments are recognized as earned.

The Agency's policy is to allocate the proportionate share of gains/losses of the Endowment Fund to Temporarily Restricted Net Assets. The Board of Directors has the authority to approve these funds to be appropriated for expenditure.

Investment Expenses

Investment expenses are netted against related investment income, gains or losses on the Statement of Activities.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mission Hospice Endowment Fund (Continued)

Investment Policies

The Agency physically and financially separates the Endowment Fund from other funds. The Endowment Fund is managed by a professional investment advisor of the Board's choosing. The Investment Committee reviews the work of the investment advisor(s) at least annually, and then reports to the Board of Directors. The primary investment objectives are preservation of capital and purchasing power and long-term growth of assets. To this end, the investments are for total return (income and capital appreciation) without considering a specific income rate.

Strategies Employed for Achieving Objectives

Restrictions: Since the primary role of the directors is to preserve the capital of the endowment, it is agreed that only those securities generally considered to be of high quality are to be acquired. As an endowment fund, the nature of the investment policy is to reduce volatility where possible. This should be done by maintaining an equity portfolio that is well diversified across industry groups, and a fixed income portfolio made up of obligations of creditworthy institutions. We acknowledge that the Agency assumes market risk by maintaining a portfolio of investments; however, high risk taking is not in the best interests the Endowment Fund and should be avoided.

Income Tax Status

The Agency has received tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, and Section 23701 (d) of the State of California Revenue and Taxation Code. Generally accepted accounting principles provide accounting and disclose guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Agency's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended December 31, 2016, from which the summarized information was obtained. Certain prior-year amounts have been reclassified to conform to the current year's financial statement presentation.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are part of the net assets of the Agency resulting from contributions and other inflows of assets whose use by the Agency is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Agency pursuant to those stipulations.

At December 31, 2017, temporarily restricted net assets available for future use are as follows:

<u>Purpose:</u>	<u>Amount</u>
Capital Campaign	\$ 714,026
Expressive Arts	11,220
Music and Memory	<u>3,641</u>
	<u>728,887</u>
 <u>Timing:</u>	
Capital Campaign	<u>350,604</u>
 Total Temporarily Restricted Net Assets	<u>\$ 1,079,491</u>

NOTE 4 – RESTRICTED FUNDS

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of year	\$ -	\$ 49,585	\$ 49,585
Investment return:			
Investment income	938	-	938
Appropriation for Expenditure	<u>(938)</u>	<u>-</u>	<u>(938)</u>
Endowment Net Assets, End of year	<u>\$ -</u>	<u>\$ 49,585</u>	<u>\$ 49,585</u>

NOTE 5 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. For the year ended December 31, 2017, net assets released from donor restrictions were as follows:

Capital Campaign	\$ 1,688,061
Transitions	16,000
Endowment appropriation for expenditures	938
Music and Memory	<u>696</u>
Total	<u>\$ 1,705,695</u>

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 – PLEDGES RECEIVABLE

Pledges receivable are unconditional promises to pay a certain amount and consist of the following at December 31, 2017:

Pledges Receivable	\$ 353,100
Less Discount for Future Payments	<u>(2,496)</u>
Pledges Receivable, Net	<u>\$ 350,604</u>
Current Pledges Receivable, Net	\$ 300,681
Non-Current Pledges Receivable, Net	<u>\$ 49,923</u>
Total	<u>\$ 350,604</u>

Pledges due beyond one year have been discounted at an annual rate of 5.0%.

NOTE 7 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

Fair Value Measurements

The Agency classifies its assets carried at fair value on a recurring basis according to the hierarchy of valuation techniques used to determine fair value. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels:

Level 1 inputs – quoted market prices (unadjusted) in active markets for identical assets that the Organization has the ability to access at the measurement date.

Level 2 inputs – quoted prices in active markets for similar assets; quoted prices for similar or identical assets in inactive markets; inputs other than quoted prices that are observable for the asset.

Level 3 inputs – at least one significant model assumption or input is unobservable. Valuation methodologies and determination of the fair value requires significant management judgment or estimation.

Investments and Money Market Funds

The following schedule presents the balances of assets measured at fair value on a recurring basis as of December 31, 2017:

	<u>Level 1</u>	<u>Total</u>
Alternative investments – non-traditional bond	\$ 137,170	\$ 137,170
Fixed income mutual funds and ETFs	1,199,438	1,199,438
Equity mutual funds and ETFs	<u>2,257,408</u>	<u>2,257,408</u>
Total	<u>\$ 3,594,016</u>	<u>\$ 3,594,016</u>

During the year ended, December 31, 2017, no available for sale securities were sold. For the purpose of determining gross realized gains or losses, the cost of securities sold is based on specific identification.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)

Investments and Money Market Funds (Continued)

The current year's unrealized gain on investments of \$340,972 noted below, is the change between the current year's gross unrealized gain \$498,543 and the prior year's gross unrealized gain of \$157,571. The net change of \$340,972 has been included under investment income in the statement of activities for the year ended December 31, 2017.

Following is a description of the valuation methodologies used for assets measured at fair value.

There have been no changes in methodologies used at December 31, 2017.

Common Stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the closing price per shares held at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Agency believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following schedule summarizes the net investment income classified as unrestricted income in the Statement of Activities for the year ended December 31, 2017:

Interest and dividends	\$ 90,443
Net unrealized gain	340,972
Less: Investment expenses	<u>(17,334)</u>
Total net investment income	<u>\$ 414,081</u>

NOTE 8 – PROPERTY AND EQUIPMENT

At December 31, 2017, property and equipment consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 2,303,195	\$ -	\$ 2,303,195
Building	3,371,578	128,530	3,243,048
Leasehold Improvements	159,992	110,338	49,654
Furniture and Fixtures	243,222	228,045	15,177
Equipment	413,225	373,225	40,000
Construction in Progress	491,229	-	491,229
Total	<u>\$ 6,982,441</u>	<u>\$ 840,138</u>	<u>\$ 6,142,303</u>

For the year ended December 31, 2017, the total depreciation and amortization expense was \$121,757.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 – NOTES PAYABLE

At December 31, 2017, the Agency's note payable balance consisted of the following:

Notes payable to a commercial bank, secured by real property, payable upon sale of property are due in monthly interest only payment at 4.25% current interest rate, principal due September 22, 2020	\$ 1,500,000
Notes payable to a commercial bank, secured by real property, payable upon sale of property are due in monthly interest only payment at 4.5% current interest rate, principal due April 26, 2022	1,400,000
Less: Current Portion	-
Long-Term Note Payable	<u>\$ 2,900,000</u>

Future annual payments on the note payable are as follows:

Year Ending December 31,	
2019 – 2021	\$ 1,500,000
Thereafter	<u>1,400,000</u>
Total future principal payments	<u>\$ 2,900,000</u>

For the year ended December 31, 2017, the total interest expense was \$95,223. Of the total interest expense, \$30,693 was capitalized.

NOTE 10 – RETIREMENT PLAN

The Agency maintains a Safe Harbor 401(k) Plan. Employees may elect to reduce their compensation by a specific percentage or dollar amount, and the amount contributed to the Plan is on a pre-tax basis. Employees are eligible under the plan if they are at least 21 years of age and have completed one year of service. Under the plan, the Agency contributes 100% of employee's salary deferrals that do not exceed 3% of compensation, plus 50% of salary deferrals between 3% and 5% of employee's compensation. Total contributions by the Agency for the year ended December 31, 2017 was \$296,069.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Commitments – Leases and Service Contracts

The Agency leases facilities and engages in service contracts for conducting its operations. At times, the lease obligations and service contracts can extend beyond one year. In addition, the Agency on occasion will lease equipment for use in their operations.

Future obligations under non-cancelable lease agreements and service contracts in excess of one year as of December 31, 2017, are:

	<u>Facility Rentals</u>	<u>Equipment Rentals & Services</u>	<u>Total</u>
Year Ending:			
December 31, 2018	\$ 480,976	\$ 268,109	\$ 749,085
December 31, 2019	506,725	185,293	692,018
December 31, 2020	518,434	88,109	606,543
December 31, 2021	-	32,730	32,730
December 31, 2022	-	24,668	24,668
Totals	<u>\$ 1,506,135</u>	<u>\$ 598,909</u>	<u>\$ 2,105,044</u>

Total facility rent expense and equipment rent expense for the year ended December 31, 2017, were \$369,388 and \$86,750, respectively.

Commitments-Construction Contract

When the Agency acquired the hospice home located in Redwood City, CA, the Agency engaged with Warren Construction in order to renovate the home. The original contract had a total stipulated sum of \$590,397, but over the course of 2017, change orders amounted to \$163,074. As of December 31, 2017 the Agency's future commitment under this contract was approximately \$395,000.

Contingencies

Grant awards require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Agency deems this contingency remote since by accepting the grants and their terms it has accommodated the objectives of the Agency to the provisions of the grants. The Agency's management is of the opinion that the Agency has complied with the terms of all grants.

Sequoia Healthcare District

In 2015, the Agency received a grant for \$1,000,000 from Sequoia Healthcare District to be used solely for the acquisition and improvement of the property for use as a hospice facility. In the event that the property is sold, transferred, subject to foreclosure, or used primarily for a purpose other than hospice services, Mission Hospice shall return the grant unless the transferee will continue to provide hospice care and is approved by the district. The property may be leased to a third party, provided that the lessee continues to provide primarily hospice services and is approved by the district. Duration of obligation to return grant funds shall be in effect for a period of ten (10) years, beginning on the date that Mission Hospice first receives the funds.

MISSION HOSPICE & HOME CARE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 – INSURANCE REIMBURSEMENTS

Mission Hospice is committed to serving patients regardless of their insurance coverage or ability to pay. Donations and grants help support patients not covered by insurance or Medicare, or when insurance does not cover the actual costs of delivering quality care and service – which is often the case. In 2017, the organization provided approximately \$450,000 of charitable care.

NOTE 13 - AUXILIARY TO MISSION HOSPICE

The Auxiliary to Mission Hospice was organized solely for the purpose of raising funds for the Agency. Separate cash accounts are used by the Hospice Auxiliary in its fund-raising activities for the Hospice. The balances in these accounts are restricted for use in payment of expenses incurred as part of fundraising programs, and are included in temporarily restricted net assets of the Hospice. During 2017, the Auxiliary contributed approximately \$340,000 to the Agency.

NOTE 14 – SUBSEQUENT EVENTS

The Agency has evaluated its financial position and activities from the December 31, 2017 year end of this report through November 28, 2018, which is the date that the financial statements were available to be issued.