

**MISSION HOSPICE & HOME CARE, INC.**

**FINANCIAL STATEMENTS**

**June 30, 2019**

**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 June 30, 2019, and December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the six- and twelve-month periods 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 June 30, 2019, and December 31, 2018, and the changes in its net assets and its cash flows for the six- and twelve-month periods 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 January 16, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Vocken Kristofferson and Co.*

San Mateo, California  
February 24, 2021

**MISSION HOSPICE AND HOME CARE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2019**  
**(With Comparative Totals for December 31, 2018)**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents (Note 2)	\$ 630,151	\$ 429,511	\$ 1,059,662	\$ 1,391,735
Funds held in trust	48,001	-	48,001	61,688
Investments (Note 7)	1,059,694	1,354,884	2,414,578	3,167,557
Patient accounts receivable, net of allowances of \$252,074 & \$159,169 for 2019 & 2018, respectively	1,755,443	-	1,755,443	3,023,055
Pledges receivable, current portion (Note 5)	-	20,500	20,500	145,500
Bequests receivable	-	-	-	535,000
Prepaid expenses	172,595		172,595	196,939
Total Current Assets	<u>3,665,884</u>	<u>1,804,895</u>	<u>5,470,779</u>	<u>8,521,474</u>
<b>Property and Equipment (Note 8):</b>				
Land	2,303,195	-	2,303,195	2,303,195
Buildings	4,502,814	-	4,502,814	4,502,814
Leasehold improvements	219,093	-	219,093	210,656
Furniture and fixtures	280,838	-	280,838	280,838
Equipment	413,225	-	413,225	413,225
Total Property and Equipment	7,719,165	-	7,719,165	7,710,728
Less accumulated depreciation and amortization	<u>(1,065,079)</u>	<u>-</u>	<u>(1,065,079)</u>	<u>(977,941)</u>
Total Property and Equipment, Net	<u>6,654,086</u>	<u>-</u>	<u>6,654,086</u>	<u>6,732,787</u>
<b>Other Assets:</b>				
Pledges receivables, long-term portion (Note 5)	-	20,004	20,004	20,004
Security deposits	128,589	-	128,589	92,606
Total Other Assets	<u>128,589</u>	<u>20,004</u>	<u>148,593</u>	<u>112,610</u>
Total Assets	<u>\$ 10,448,559</u>	<u>\$ 1,824,899</u>	<u>\$ 12,273,458</u>	<u>\$ 15,366,871</u>

See accompanying notes to financial statements.

**MISSION HOSPICE AND HOME CARE, INC.**  
**STATEMENT OF FINANCIAL POSITION (Continued)**  
**June 30, 2019**  
**(With Comparative Totals for December 31, 2018)**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 393,292	\$ -	\$ 393,292	\$ 126,862
Accrued payroll and paid time off	2,070,490	-	2,070,490	2,495,008
Accrued expenses and contractual allowances	2,128,517	-	2,128,517	2,956,157
Funds held in trust	37,006	-	37,006	61,688
Total Current Liabilities	4,629,305	-	4,629,305	5,639,715
<b>Long-Term Liabilities:</b>				
Line of credit	854,669	-	854,669	777,244
Notes payable (Note 9)	2,887,500	-	2,887,500	2,900,000
Total Long-Term Liabilities	3,742,169	-	3,742,169	3,677,244
Total Liabilities	8,371,474	-	8,371,474	9,316,959
<b>Net Assets:</b>				
Without donor restrictions	2,077,085	-	2,077,085	4,555,987
With donor restrictions (Note 3)	-	1,824,899	1,824,899	1,493,925
Total Net Assets	2,077,085	1,824,899	3,901,984	6,049,912
Total Liabilities and Net Assets	\$ 10,448,559	\$ 1,824,899	\$ 12,273,458	\$ 15,366,871

See accompanying notes to financial statements.

**MISSION HOSPICE AND HOME CARE, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Six-Month Ended June 30, 2019**  
**(With Comparative Totals for Year Ended December 31, 2018)**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenues, gains, and support:</b>				
Patient service revenue (net of contractual allowances and discounts) (Note 2)	\$ 10,761,420	\$ -	\$ 10,761,420	\$ 24,505,656
Special events revenue, net of direct expenses \$70,271 and \$195,181 respectively	25,345	14,124	39,469	261,994
Donations, bequests and memorials	271,543	329,350	600,893	1,830,926
In-kind revenue	19,911	-	19,911	-
Net investment gain/(loss) (Note 7)	374,626	307	374,933	(174,705)
Net assets released from restrictions (Note 4)	12,807	(12,807)	-	-
Total Revenue, Gains and Support	<u>11,465,652</u>	<u>330,974</u>	<u>11,796,626</u>	<u>26,423,871</u>
<b>Expenses:</b>				
Program Services:				
Hospice	9,181,406	-	9,181,406	20,549,311
Advanced home care	1,777,942	-	1,777,942	3,386,191
Transitions	167,573	-	167,573	386,428
Mission houses	1,999,167	-	1,999,167	3,417,905
Total Program Services	<u>13,126,088</u>	<u>-</u>	<u>13,126,088</u>	<u>27,739,835</u>
Supporting Services:				
Management and general	460,567	-	460,567	888,241
Development	357,899	-	357,899	603,175
Total Supporting Services	<u>818,466</u>	<u>-</u>	<u>818,466</u>	<u>1,491,416</u>
Total Expenses	<u>13,944,554</u>	<u>-</u>	<u>13,944,554</u>	<u>29,231,251</u>
<b>Change in Net Assets</b>	\$ (2,478,902)	\$ 330,974	\$ (2,147,928)	\$ (2,807,380)
<b>Net Assets:</b>				
Beginning of Year	4,555,987	1,493,925	6,049,912	8,857,292
End of Year	<u>\$ 2,077,085</u>	<u>\$ 1,824,899</u>	<u>\$ 3,901,984</u>	<u>\$ 6,049,912</u>

See accompanying notes to financial statements.

**MISSION HOSPICE AND HOME CARE, INC.**  
**STATEMENT OF CASH FLOWS**  
**Six-Month Ended June 30, 2019**  
**(With Comparative Totals for Year Ended December 31, 2018)**

	2019	2018
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (2,147,928)	\$ (2,807,380)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Bad debt expense	(92,905)	107,921
Depreciation and amortization	87,138	137,803
Net realized and unrealized (gain) loss on investments	(346,287)	267,000
Donated securities	(106,701)	-
Decrease in accounts receivable	1,360,517	136,823
Decrease in pledges receivable	125,000	185,100
Decrease (Increase) in bequest receivable	535,000	(535,000)
Decrease (Increase) in prepaid expenses	24,344	(55,255)
Increase in deposits	(35,983)	(16,624)
Increase in accounts payable	266,430	63,837
(Decrease) Increase in accrued payroll and paid time off	(424,518)	761,309
(Decrease) Increase in accrued expenses and contractual allowances	(827,640)	935,635
Decrease in funds held in trust	(10,995)	-
Net Cash Used in Operating Activities	<u>(1,594,528)</u>	<u>(818,831)</u>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sale of investments	1,409,743	4,216,646
Purchases of investments	(203,776)	(4,057,187)
Purchases of property and equipment	(8,437)	(728,287)
Net Cash Provided by (Used in) Investing Activities	<u>1,197,530</u>	<u>(568,828)</u>
<b>Cash Flows From Financing Activities:</b>		
Net borrowing from line of credit	77,425	777,244
Payments on note payable	(12,500)	-
Net Cash Provided by Financing Activities	<u>64,925</u>	<u>777,244</u>
 Net Decrease in Cash and Cash Equivalents	 (332,073)	 (610,415)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	1,391,735	2,002,150
End of year	<u>\$ 1,059,662</u>	<u>\$ 1,391,735</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 133,073</u>	<u>\$ 177,341</u>
<b>Noncash Operating and Investing Activities:</b>		
In-kind contributions of stock in the amount of \$106,701		

See accompanying notes to financial statements



**MISSION HOSPICE AND HOME CARE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Six-Month Ended June 30, 2019**  
**(With Comparative Totals for Year Ended December 31, 2018)**

	Program Services					Management and General	Development	Total 6/30/2019	Total 12/31/2018
	Hospice	Advanced Home Care	Transitions	Mission Houses	Total Program Services				
<b>Expenses:</b>									
Salaries & Wages	\$ 5,455,911	\$ 1,206,375	\$ 88,231	\$ 1,314,930	\$ 8,065,447	\$ 220,988	\$ 207,870	\$ 8,494,305	\$ 17,565,564
Payroll Taxes	412,967	101,939	7,366	93,630	615,902	17,285	16,392	649,579	1,929,826
Employee Benefits	721,939	145,973	8,161	130,844	1,006,917	18,087	14,444	1,039,448	1,209,186
Total Personnel Costs	6,590,817	1,454,287	103,758	1,539,404	9,688,266	256,360	238,706	10,183,332	20,704,576
Advertising & Marketing	18,227	-	-	-	18,227	-	314	18,541	79,937
Computer Support Expense	86,037	22,943	7,648	3,059	119,687	24,472	15,377	159,536	421,498
Depreciation & Amortization Expense	10,690	2,864	955	68,429	82,938	3,055	1,145	87,138	137,803
Dues, Licenses & Subscriptions	113,109	24,556	8,119	4,387	150,171	25,982	10,898	187,051	65,837
Employee Education/Training/Conference	12,933	8,176	526	429	22,064	1,684	631	24,379	119,356
Equipment Lease	14,822	4,463	207	83	19,575	662	248	20,485	46,419
Insurance	22,383	5,996	1,999	6,301	36,679	6,395	2,398	45,472	93,140
Interest & Fees	29,386	7,871	2,624	81,647	121,528	8,396	3,149	133,073	177,341
Office Supplies	9,754	3,226	560	10,647	24,187	1,792	1,105	27,084	57,988
Miscellaneous Expense	12,495	3,280	1,093	563	17,431	3,499	1,312	22,242	13,270
Patient Care Expenses	1,767,030	55,743	122	198,720	2,021,615	390	146	2,022,151	5,415,773
Postage & Printing	24,335	1,577	388	1,922	28,222	1,240	33,288	62,750	88,161
Professional Fees	205,044	115,570	17,824	21,837	360,275	57,037	22,589	439,901	715,195
Property Tax	-	-	-	20,660	20,660	-	-	20,660	37,818
Rent	140,642	37,672	12,557	5,023	195,894	40,184	15,069	251,147	512,168
Repairs & Maintenance	665	178	59	9,602	10,504	190	71	10,765	55,312
Telephone	34,579	9,902	2,934	1,730	49,145	9,389	3,781	62,315	135,591
Travel & Training	29,596	3,872	944	3,399	37,811	3,022	1,365	42,198	147,160
Utilities	58,862	15,766	5,256	21,325	101,209	16,818	6,307	124,334	206,908
Total Operating Costs	2,590,589	323,655	63,815	459,763	3,437,822	204,207	119,193	3,761,222	8,526,675
<b>Total Expenses</b>	<b>\$ 9,181,406</b>	<b>\$ 1,777,942</b>	<b>\$ 167,573</b>	<b>\$ 1,999,167</b>	<b>\$ 13,126,088</b>	<b>\$ 460,567</b>	<b>\$ 357,899</b>	<b>\$ 13,944,554</b>	<b>\$ 29,231,251</b>

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 Agency’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. The Advanced Care program has ceased operations as of early June 2019.

*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.

**California Hospice Network**

The California Hospice Network (CHN) was formed in 2019 as a strategic partnership committed to sustaining local nonprofit, community-based hospice care in California. Mission Hospice and Home Care, Inc. joined as a founding member of the organization in April 2019 and continues to operate as a distinct and independent nonprofit, mission-driven hospice care organization. In order to align reporting requirements with the other members of the CHN, the Organization has changed its fiscal reporting period from calendar year end December 31, 2018 to June 30, 2019.

**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 (U.S. GAAP). 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:

**Net Assets Without Donor Restrictions:**

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. The governing board has designated, from net assets without donor restrictions, net assets for an operating and board-designated reserve.

**Net Assets With Donor Restrictions:**

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Mission Hospice & Home Care, Inc. or by passage of time. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**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. Because of inherent uncertainties in estimates, it is at least reasonably possible that the estimates used may change within the near term. 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 six-month period ended June 30, 2019, 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.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 June 30, 2019, balances above the insured limits were approximately \$730,000.

**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.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Program Revenue (Continued)**

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 activities and as a reduction in patient accounts receivable in the statement of financial position.

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

Medicare	\$ 9,314,954
Medi-Cal Fees	295,048
Private Fees for Services	<u>1,151,418</u>
Total	<u>\$ 10,761,420</u>

**Contributions and Grants**

Contributions without donor restrictions are recorded as revenue without donor restrictions 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 revenue with donor restrictions. Generally, donors place restrictions for a specific time period and/or a specific use or purpose. Once donor restrictions are satisfied, revenue with donor restrictions is released and reclassified as revenue without donor restrictions. 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 six-month period ended June 30, 2019, the agency received 6,214 hours of contributed services.

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

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 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 net assets with donor restrictions (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.

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 Net Assets with Donor Restrictions. The Board of Directors has the authority to approve these funds to be appropriated for expenditure.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Mission Hospice Endowment Fund (Continued)**

*Investment Expenses*

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

*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, 2018, 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 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Auditing Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 establishes principles for reporting revenue arising from an organization's contracts with customers. On June 3, 2020, FASB deferred the effective date by one year. The new guidance is effective for the Agency's year beginning July 2020. The core principle of ASU 2014-09 requires an organization to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. The Agency is continuing to evaluate the impact of adopting the new standard on its results of operations and financial position, as well as the method it will use for adoption.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The new ASU will supersede much of the existing authoritative literature for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their Statement of Financial Position for all leases with lease terms longer than 12 months. The FASB has decided to amend the effective date of the updated leases standard for private companies and private not-for-profit entities to annual reporting periods beginning after December 15, 2021. Mission Hospice & Home Care, Inc. is currently evaluating the impact this guidance will have on its financial statements.

On June 21, 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Mission Hospice & Home Care, Inc. is currently evaluating the impact this guidance will have on its financial statements.

**NOTE 3 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions 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 June 30, 2019, net assets with donor restrictions available for future use are as follows:

<u>Purpose:</u>	<u>Amount</u>
Capital Campaign	\$ 1,757,814
Transitions	17,500
Endowment	<u>49,585</u>
Total Net Assets with Donor Restrictions	<u>\$ 1,824,899</u>



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

**NOTE 3 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

Changes in endowment net assets as of June 30, 2019 are as follows:

	<u>With Donor Restrictions</u>
Endowment Net Assets, Beginning of year	\$ 49,585
Investment return:	
Investment income	307
Appropriation for Expenditure	<u>(307)</u>
Endowment Net Assets, End of year	<u>\$ 49,585</u>

**NOTE 4 – 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 six-month period ended June 30, 2019, net assets released from donor restrictions were as follows:

Capital Campaign	\$ 12,500
Endowment appropriation for expenditures	<u>307</u>
Total	<u>\$ 12,807</u>

**NOTE 5 – PLEDGES RECEIVABLE**

Pledges receivable are unconditional promises to pay a certain amount and consist of the following at June 30, 2019:

Pledges Receivable	\$ 43,000
Less Discount for Future Payments	<u>(2,496)</u>
Pledges Receivable, Net	<u>\$ 40,504</u>
Current Pledges Receivable, Net	\$ 20,500
Non-Current Pledges Receivable, Net	<u>\$ 20,004</u>
Total	<u>\$ 40,504</u>

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

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

**NOTE 6 – AVAILABILITY AND LIQUIDITY**

As of June 30, 2019, the Agency's financial assets available within one year for general expenditures are as follows:

	<u>June 30, 2019</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 1,059,662
Funds held in trust	48,001
Investments	2,414,578
Patient accounts receivable, net	1,755,443
Pledges receivable, current portion	<u>20,500</u>
	5,298,184
Less:	
Net assets with donor restrictions	<u>1,824,899</u>
Total available for general expenditures	<u>\$ 3,473,285</u>

The Agency aims to maintain financial assets to meet 90 days of operating expenses.

**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 Agency 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 June 30, 2019:

	<u>Level 1</u>	<u>Total</u>
Fixed income mutual funds and ETFs	\$ 978,188	\$ 978,188
Equity mutual funds and ETFs	<u>1,436,390</u>	<u>1,436,390</u>
Total	<u>\$ 2,414,578</u>	<u>\$ 2,414,578</u>

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

**NOTE 7 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)**

During the six-month period ended, June 30, 2019, sales proceeds of \$1,303,042 were recognized for available for sale securities that were sold. For the purpose of determining gross realized gains or losses, the cost of securities sold is based on specific identification.

Investments and Money Market Funds (Continued)

The current six-month period's unrealized gain on investments of \$308,478 noted below, is the change between the current six-month period's gross unrealized gain \$109,570 and the prior year's gross unrealized loss of \$(198,908). The net change of \$308,478 has been included under investment income in the statement of activities for the six-month period ended June 30, 2019.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2019.

*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 six-month period ended June 30, 2019:

Interest and dividends	\$ 37,520
Net realized and unrealized gain	346,287
Less: Investment expenses	<u>(8,874)</u>
Total net investment income	<u>\$ 374,933</u>

**NOTE 8 – PROPERTY AND EQUIPMENT**

At June 30, 2019, property and equipment consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 2,303,195	\$ -	\$ 2,303,195
Building	4,502,814	254,998	4,247,816
Leasehold Improvements	219,093	164,619	54,474
Furniture and Fixtures	280,838	248,238	32,600
Equipment	<u>413,225</u>	<u>397,224</u>	<u>16,001</u>
Total	<u>\$ 7,719,165</u>	<u>\$ 1,065,079</u>	<u>\$ 6,654,086</u>

For the six-month period ended June 30, 2019, the total depreciation and amortization expense was \$87,138.

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

**NOTE 9 – NOTES PAYABLE AND LINE OF CREDIT**

At June 30, 2019, 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 5.25% 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 5.25% current interest rate, principal due April 26, 2022	1,387,500
Less: Current Portion	<u>-</u>
Long-Term Note Payable	<u>\$ 2,887,500</u>

Future annual payments on the note payable are as follows:

Year Ending December 31,	
2020 – 2021	\$ 1,500,000
Thereafter	<u>1,387,500</u>
Total future principal payments	<u>\$ 2,887,500</u>

For the six-month period ended June 30, 2019, the total interest expense was \$133,073. Of the total interest expense, \$52,475 was from the line of credit.

The Agency has a \$1,494,438 line of credit with a financial institution. The outstanding balance at June 30, 2019 was \$854,669. The line of credit is secured by the Agency's assets and interest is charged on any outstanding balance; the interest rate at June 30, 2019 was 5.40%.

**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 six-month period ended June 30, 2019 was \$236,963.

**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 June 30, 2019, are:

	<u>Facility Rentals</u>	<u>Equipment Rentals &amp; Services</u>	<u>Total</u>
Year Ending:			
June 30, 2020	\$ 516,693	\$ 210,044	\$ 726,737
June 30, 2021	<u>259,351</u>	<u>104,959</u>	<u>364,310</u>
Totals	<u>\$ 776,044</u>	<u>\$ 315,003</u>	<u>\$ 1,091,047</u>

Total facility rent expense for the six-month period ended June 30, 2019, was \$251,147.

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. (See Note 15).

**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. For the period ended June 30, 2019, the Agency provided approximately \$66,000 of charitable care.

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

**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 the first six-months of 2019, the Auxiliary contributed approximately \$240,000 to the Agency.

**NOTE 14 – COVID-19**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a Public Health Emergency of International Concern and, on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economics and financial markets of many countries, including the geographical area in which the Agency operates. It is unknown how long these conditions will last and what the complete financial effect will be to the Agency, to date, and it is reasonably possible that the Agency is vulnerable to the risk of a near-term severe impact.

On March 27, 2020 the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was enacted to, amongst other provisions, provide emergency assistance for individuals, families, and businesses affected by the coronavirus pandemic. In April 2020, the Agency applied for and was approved for a loan through the Paycheck Protection Program as part of the CARES Act. The total amount available through this loan is \$3,177,000. In addition to the PPP loan, the Agency directly received \$1,181,206, disclosed as the CARES Act Grant.

**NOTE 15 – RISKS AND UNCERTAINTIES**

On January 26, 2021 the Organization received a preliminary report of findings of an audit conducted on 100 charts during the period of October 1, 2015 – September 30, 2017. Of the 100 charts, the Office of Inspector General (OIG) claimed that there was insufficient evidence that 34 of the patients met hospice criteria. The Organization has since engaged an outside consultant and an attorney, both who have assisted other hospices through this process.

Although the estimated extrapolated amount owed to the Centers for Medicare & Medicaid Services (CMS) in the preliminary report was in the vicinity of \$10.5 million dollars, the amount ultimately owed is subject to the 4 year reopening period by which many of the charts reviewed with fall out. Therefore, at this juncture it is much too early to know what the final amount or liability will be. The actual back and forth review of findings and potential additional extensions could take many months until a final report and amount is known.

**MISSION HOSPICE & HOME CARE, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2018**

**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, 2018, 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, 2018, 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 November 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Vocken Kristofferson and Co.*

San Mateo, California  
January 16, 2020

**MISSION HOSPICE AND HOME CARE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2018**  
**(With Comparative Totals for December 31, 2017)**

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents (Note 2)	\$ 112,899	\$ 1,278,836	\$ 1,391,735	\$ 2,002,150
Funds held in trust	61,688	-	61,688	23,983
Investments (Note 7)	3,117,972	49,585	3,167,557	3,594,016
Patient accounts receivable, net of allowances of \$159,169 & \$267,090 for 2018 & 2017, respectively	3,023,055	-	3,023,055	3,267,799
Pledges receivable, current portion (Note 5)	-	145,500	145,500	300,681
Bequests receivable	535,000	-	535,000	-
Prepaid expenses	196,939	-	196,939	141,684
Total Current Assets	<u>7,047,553</u>	<u>1,473,921</u>	<u>8,521,474</u>	<u>9,330,313</u>
<b>Property and Equipment (Note 8):</b>				
Land	2,303,195	-	2,303,195	2,303,195
Buildings	4,502,814	-	4,502,814	3,371,578
Leasehold improvements	210,656	-	210,656	159,992
Furniture and fixtures	280,838	-	280,838	243,222
Equipment	413,225	-	413,225	413,225
Construction in progress	-	-	-	491,229
Total Property and Equipment	<u>7,710,728</u>	<u>-</u>	<u>7,710,728</u>	<u>6,982,441</u>
Less accumulated depreciation and amortization	<u>(977,941)</u>	<u>-</u>	<u>(977,941)</u>	<u>(840,138)</u>
Total Property and Equipment, Net	<u>6,732,787</u>	<u>-</u>	<u>6,732,787</u>	<u>6,142,303</u>
<b>Other Assets:</b>				
Pledges receivables, long-term portion (Note 5)	-	20,004	20,004	49,923
Security deposits	92,606	-	92,606	75,982
Total Other Assets	<u>92,606</u>	<u>20,004</u>	<u>112,610</u>	<u>125,905</u>
Total Assets	<u>\$ 13,872,946</u>	<u>\$ 1,493,925</u>	<u>\$ 15,366,871</u>	<u>\$ 15,598,521</u>

See accompanying notes to financial statements.

**MISSION HOSPICE AND HOME CARE, INC.**  
**STATEMENT OF FINANCIAL POSITION (Continued)**  
**December 31, 2018**  
**(With Comparative Totals for December 31, 2017)**

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 126,862	\$ -	\$ 126,862	\$ 63,025
Accrued payroll and paid time off	2,495,008	-	2,495,008	1,733,699
Deferred revenue	-	-	-	-
Accrued expenses and contractual allowances	2,956,157	-	2,956,157	2,020,522
Funds held in trust	61,688	-	61,688	23,983
Total Current Liabilities	<u>5,639,715</u>	<u>-</u>	<u>5,639,715</u>	<u>3,841,229</u>
<b>Long-Term Liabilities:</b>				
Line of credit	777,244	-	777,244	-
Notes payable (Note 9)	2,900,000	-	2,900,000	2,900,000
Total Long-Term Liabilities	<u>3,677,244</u>	<u>-</u>	<u>3,677,244</u>	<u>2,900,000</u>
Total Liabilities	<u>9,316,959</u>	<u>-</u>	<u>9,316,959</u>	<u>6,741,229</u>
<b>Net Assets:</b>				
Without donor restrictions	4,555,987	-	4,555,987	7,728,216
With donor restrictions (Note 3)	-	1,493,925	1,493,925	1,129,076
Total Net Assets	<u>4,555,987</u>	<u>1,493,925</u>	<u>6,049,912</u>	<u>8,857,292</u>
Total Liabilities and Net Assets	<u>\$ 13,872,946</u>	<u>\$ 1,493,925</u>	<u>\$ 15,366,871</u>	<u>\$ 15,598,521</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, 2018**  
**(With Comparative Totals for Year Ended December 31, 2017)**

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenues, gains, and support:</b>				
Patient service revenue (net of contractual allowances and discounts) (Note 2)	\$ 24,505,656	\$ -	\$ 24,505,656	\$ 22,534,228
Grants and contracts	-	-	-	1,059,000
Special events revenue, net of direct expenses \$195,181 and \$191,250 respectively	14,843	247,151	261,994	491,631
Donations, bequests and memorials	1,058,360	772,566	1,830,926	758,998
In-kind revenue	-	-	-	-
Net investment loss (Note 7)	(175,538)	833	(174,705)	414,081
Net assets released from restrictions (Note 4)	655,701	(655,701)	-	-
Total Revenue, Gains and Support	<u>26,059,022</u>	<u>364,849</u>	<u>26,423,871</u>	<u>25,257,938</u>
<b>Expenses:</b>				
Program Services:				
Hospice	20,549,311	-	20,549,311	17,954,488
Advanced home care	3,386,191	-	3,386,191	3,019,443
Transitions	386,428	-	386,428	183,177
Mission houses	3,417,905	-	3,417,905	2,551,394
Total Program Services	<u>27,739,835</u>	<u>-</u>	<u>27,739,835</u>	<u>23,708,502</u>
Supporting Services:				
Management and general	888,241	-	888,241	1,066,258
Development	603,175	-	603,175	425,880
Total Supporting Services	<u>1,491,416</u>	<u>-</u>	<u>1,491,416</u>	<u>1,492,138</u>
Total Expenses	<u>29,231,251</u>	<u>-</u>	<u>29,231,251</u>	<u>25,200,640</u>
<b>Change in Net Assets</b>	\$ (3,172,229)	\$ 364,849	\$ (2,807,380)	\$ 57,298
<b>Net Assets:</b>				
Beginning of Year	<u>7,728,216</u>	<u>1,129,076</u>	<u>8,857,292</u>	<u>8,799,994</u>
End of Year	<u>\$ 4,555,987</u>	<u>\$ 1,493,925</u>	<u>\$ 6,049,912</u>	<u>\$ 8,857,292</u>

See accompanying notes to financial statements.

**MISSION HOSPICE AND HOME CARE, INC.**  
**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2018**  
**(With Comparative Totals for Year Ended December 31, 2017)**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (2,807,380)	\$ 57,298
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	107,921	(179,737)
Depreciation and amortization	137,803	121,757
Net realized and unrealized loss/(gain) on investments	267,000	(340,972)
Decrease in accounts receivable	136,823	577,154
Decrease in pledges receivable	185,100	108,962
(Increase)/Decrease in bequest receivable	(535,000)	500,000
(Increase)/Decrease in prepaid expenses	(55,255)	80,710
(Increase)/Decrease in deposits	(16,624)	1,299
Increase/(Decrease) in accounts payable	63,837	(112,725)
Increase in accrued payroll and paid time off	761,309	403,385
Increase in accrued expenses and contractual allowances	935,635	39,223
Decrease in deferred revenue	-	(39,272)
Net Cash (Used)/Provided by Operating Activities	<u>(818,831)</u>	<u>1,217,082</u>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sale of investments	4,216,646	-
Purchases of investments	(4,057,187)	(42,356)
Purchases of property and equipment	(728,287)	(1,347,743)
Net Cash Used in Investing Activities	<u>(568,828)</u>	<u>(1,390,099)</u>
<b>Cash Flows From Financing Activities:</b>		
Net borrowing from line of credit	777,244	-
Net Cash Provided in Financing Activities	<u>777,244</u>	<u>-</u>
Net Decrease in Cash and Cash Equivalents	(610,415)	(173,017)
<b>Cash and Cash Equivalents:</b>		
Beginning of year	2,002,150	2,175,167
End of year	<u>\$ 1,391,735</u>	<u>\$ 2,002,150</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 177,341</u>	<u>\$ 95,223</u>
<b>Noncash Investing and Financing Activities:</b>		
Acquisition of property through issuance of note payable	<u>\$ -</u>	<u>\$ 1,400,000</u>

See accompanying notes to financial statements

**MISSION HOSPICE AND HOME CARE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2018  
(With Comparative Totals for Year Ended December 31, 2017)

	Program Services						Development	Management and General	Total 12/31/2018	Total 12/31/2017
	Hospice	Advanced Home Care	Transitions	Mission Houses	Total Program Services					
<b>Expenses:</b>										
Salaries & Wages	\$ 12,102,176	\$ 2,308,322	\$ 236,694	\$ 2,086,672	\$ 16,733,864	\$	\$ 380,640	\$ 451,060	\$ 17,565,564	\$ 15,142,762
Payroll Taxes	1,386,493	227,958	18,977	224,112	1,857,540		30,136	42,150	1,929,826	1,459,215
Employee Benefits	817,234	172,505	15,455	147,422	1,152,616		26,396	30,174	1,209,186	1,117,073
Total Personnel Costs	14,305,903	2,708,785	271,126	2,458,206	19,744,020		437,172	523,384	20,704,576	17,719,050
Advertising & Marketing	61,368	302	101	5,224	66,995		12,620	322	79,937	59,228
Computer Support Expense	231,930	61,616	20,539	8,822	322,907		32,867	65,724	421,498	459,433
Depreciation & Amortization Expense	28,601	7,661	2,554	87,751	126,567		3,064	8,172	137,803	121,757
Dues, Licenses & Subscriptions	50,298	4,389	1,265	2,315	58,267		3,522	4,048	65,837	76,969
Employee Education/Training/Conference	62,957	35,084	3,183	4,128	105,352		3,819	10,185	119,356	172,478
Equipment Lease	28,193	12,001	1,073	429	41,696		1,288	3,435	46,419	35,291
Insurance	50,057	11,212	3,737	11,690	76,696		4,485	11,959	93,140	83,613
Interest & Fees	18,878	5,057	1,686	144,303	169,924		2,023	5,394	177,341	64,529
Office Supplies	25,393	6,198	1,321	18,247	51,159		2,925	3,904	57,988	58,117
Miscellaneous Expense	6,067	1,625	542	2,652	10,886		650	1,734	13,270	11,368
Patient Care Expenses	4,692,376	193,124	2,187	521,654	5,409,341		1,754	4,678	5,415,773	5,024,306
Postage & Printing	60,315	12,952	1,394	5,496	80,157		5,006	2,998	88,161	107,245
Professional Fees	354,176	183,645	29,382	18,684	585,887		35,285	94,023	715,195	388,714
Property Tax	-	-	-	37,818	37,818		-	-	37,818	36,562
Rent	287,560	77,025	25,675	8,938	399,198		30,810	82,160	512,168	369,388
Repairs & Maintenance	12,034	3,085	1,028	34,640	50,787		1,234	3,291	55,312	22,045
Telephone	75,528	18,804	6,188	7,325	107,845		7,945	19,801	135,591	119,651
Travel & Training	91,491	28,443	3,966	5,241	129,141		5,329	12,690	147,160	138,753
Utilities	106,186	15,183	9,481	34,342	165,192		11,377	30,339	206,908	132,143
Total Operating Costs	6,243,408	677,406	115,302	959,699	7,995,815		166,003	364,857	8,526,675	7,481,590
<b>Total Expenses</b>	\$ 20,549,311	\$ 3,386,191	\$ 386,428	\$ 3,417,905	\$ 27,739,835	\$	\$ 603,175	\$ 888,241	\$ 29,231,251	\$ 25,200,640

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 (U.S. GAAP). 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:

**Net Assets Without Donor Restrictions:**

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. The governing board has designated, from net assets without donor restrictions, net assets for an operating and board-designated reserve.

**Net Assets With Donor Restrictions:**

Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Mission Hospice & Home Care, Inc. or by passage of time. Other donor restrictions may be perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**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. Because of inherent uncertainties in estimates, it is at least reasonably possible that the estimates used may change within the near term. 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, 2018, the Agency had one major revenue source; Centers for Medicare and Medicaid Services that accounted for approximately 92% 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, 2018, balances above the insured limits were approximately \$1,000,000.

**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 activities and as a reduction in patient accounts receivable in the statement of financial position.

**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	\$ 21,906,624
Medi-Cal Fees	723,543
Private Fees for Services	<u>1,875,489</u>
Total	<u>\$ 24,505,656</u>

**Contributions and Grants**

Contributions without donor restrictions are recorded as revenue without donor restrictions 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 revenue with donor restrictions. Generally, donors place restrictions for a specific time period and/or a specific use or purpose. Once donor restrictions are satisfied, revenue with donor restrictions is released and reclassified as revenue without donor restrictions. 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, 2018, the agency received 10,383 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 net assets with donor restrictions (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.

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 Net Assets with Donor Restrictions. 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, 2017, from which the summarized information was obtained. Certain prior-year amounts have been reclassified to conform to the current year's financial statement presentation.

**Accounting Pronouncements Adopted**

In August 2016, the Financial Accounting Standards Board (FASB) issued Auditing Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification by providing new information about liquidity and availability of resources. The new presentation also adds more consistency in the type of information provided about expenses and investment returns. The ASU has been applied retrospectively to all periods presented.

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Auditing Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 establishes principles for reporting revenue arising from an organization's contracts with customers. The core principle of ASU 2014-09 requires an organization to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. The ASU will be effective for non-public business entities for fiscal years beginning after December 15, 2018.

On June 21, 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard is intended to address questions stemming from ASU 2014-09, Revenue from Contracts with Customers (Topic 606), regarding its implications on grants and contracts of not-for-profit organizations. The requirements of ASU 2018-08 are effective for non-public business entities for fiscal years beginning after December 15, 2018. Mission Hospice & Home Care, Inc. is currently evaluating the impact this guidance will have on its financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The new ASU will supersede much of the existing authoritative literature for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their Statement of Financial Position for all leases with lease terms longer than 12 months. The ASU will be effective for non-public business entities for fiscal years beginning after December 15, 2019 with early application permitted. Mission Hospice & Home Care, Inc. is currently evaluating the impact this guidance will have on its financial statements.

**NOTE 3 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions 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, 2018, net assets with donor restrictions available for future use are as follows:

<u>Purpose:</u>	<u>Amount</u>
Capital Campaign	\$ 1,432,859
Expressive Arts	11,481
Endowment	<u>49,585</u>
Total Net Assets with Donor Restrictions	<u>\$ 1,493,925</u>

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

**NOTE 3 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

Changes in endowment net assets as of December 31, 2018 are as follows:

	<u>With Donor Restrictions</u>
Endowment Net Assets, Beginning of year	\$ 49,585
Investment return:	
Investment income	833
Appropriation for Expenditure	<u>(833)</u>
Endowment Net Assets, End of year	<u>\$ 49,585</u>

**NOTE 4 – 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, 2018, net assets released from donor restrictions were as follows:

Capital Campaign	\$ 640,007
Expressive Arts	11,220
Music & Memory	3,641
Endowment appropriation for expenditures	<u>833</u>
Total	<u>\$ 655,701</u>

**NOTE 5 – PLEDGES RECEIVABLE**

Pledges receivable are unconditional promises to pay a certain amount and consist of the following at December 31, 2018:

Pledges Receivable	\$ 168,000
Less Discount for Future Payments	<u>(2,496)</u>
Pledges Receivable, Net	<u>\$ 165,504</u>
Current Pledges Receivable, Net	\$ 145,500
Non-Current Pledges Receivable, Net	<u>\$ 20,004</u>
Total	<u>\$ 165,504</u>

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

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

**NOTE 6 – AVAILABILITY AND LIQUIDITY**

As of December 31, 2018, the Agency's financial assets available within one year for general expenditures are as follows:

	<u>2018</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 1,391,735
Funds held in trust	61,688
Investments	3,167,557
Patient accounts receivable, net	3,023,055
Pledges receivable, current portion	145,500
Bequests receivable	<u>535,000</u>
	8,324,535
Less:	
Net assets with donor restrictions	<u>1,493,925</u>
Total available for general expenditures	<u>\$ 6,830,610</u>

The Agency aims to maintain financial assets to meet 90 days of operating expenses.

**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, 2018:

	<u>Level 1</u>	<u>Total</u>
Fixed income mutual funds and ETFs	\$ 1,288,339	\$ 1,288,339
Equity mutual funds and ETFs	<u>1,879,218</u>	<u>1,879,218</u>
Total	<u>\$ 3,167,557</u>	<u>\$ 3,167,557</u>



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

**NOTE 7 – FAIR VALUE MEASUREMENTS AND INVESTMENTS (Continued)**

During the year ended, December 31, 2018, sales proceeds of \$4,216,646 were recognized for available for sale securities that were sold. For the purpose of determining gross realized gains or losses, the cost of securities sold is based on specific identification.

Investments and Money Market Funds (Continued)

The current year's unrealized loss on investments of \$(697,451) noted below, is the change between the current year's gross unrealized loss \$(198,908) and the prior year's gross unrealized gain of \$498,543. The net change of \$(697,451) has been included under investment loss in the statement of activities for the year ended December 31, 2018.

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, 2018.

*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, 2018:

Interest and dividends	\$ 109,430
Net realized and unrealized loss	(267,000)
Less: Investment expenses	<u>(17,135)</u>
Total net investment loss	<u>\$ (174,705)</u>

**NOTE 8 – PROPERTY AND EQUIPMENT**

At December 31, 2018, property and equipment consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 2,303,195	\$ -	\$ 2,303,195
Building	4,502,814	198,713	4,304,101
Leasehold Improvements	210,656	145,528	65,128
Furniture and Fixtures	280,838	244,476	36,362
Equipment	413,225	389,224	24,001
Total	<u>\$ 7,710,728</u>	<u>\$ 977,941</u>	<u>\$ 6,732,787</u>

For the year ended December 31, 2018, the total depreciation and amortization expense was \$137,803.

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

**NOTE 9 – NOTES PAYABLE AND LINE OF CREDIT**

At December 31, 2018, 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 5.25% 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 5.25% 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, 2018, the total interest expense was \$177,341. Of the total interest expense, \$33,712 was from the line of credit.

The Agency has a \$1,496,052 line of credit with a financial institution. The outstanding balance at December 31, 2018 was \$777,855. The line of credit is secured by the Agency's assets and interest is charged on any outstanding balance; the interest rate at December 31, 2018 was 5.52%.

**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, 2018 was \$418,908.

**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, 2018, are:

	<u>Facility Rentals</u>	<u>Equipment Rentals &amp; Services</u>	<u>Total</u>
Year Ending:			
December 31, 2019	\$ 506,725	\$ 219,424	\$ 726,149
December 31, 2020	518,434	210,633	729,067
December 31, 2021	-	22,149	22,149
Totals	<u>\$ 1,025,159</u>	<u>\$ 330,800</u>	<u>\$ 1,477,365</u>

Total facility rent expense and equipment rent expense for the year ended December 31, 2018, were \$512,168 and \$83,436 respectively.

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. (See Note 14).

**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 2018, the organization provided approximately \$177,530 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 2018, the Auxiliary contributed approximately \$225,000 to the Agency.

**NOTE 14 – SUBSEQUENT EVENTS**

The Agency has evaluated its financial position and activities from the December 31, 2018 year end of this report through January 16, 2020, which is the date that the financial statements were available to be issued.

On November 4, 2019, the San Mateo Mission House was sold for \$4 million. Due to the contingencies set forth by Sequoia Healthcare District, the Agency will be required to repay the grant of \$1 million received in 2015. In addition, the real estate loan of \$1.5 million will be repaid.