

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

REPORT ON EXAMINATION  
OF FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION

YEAR ENDED DECEMBER 31, 2015  
(With Comparative Totals for 2014)

## CONTENTS

INDEPENDENT AUDITORS' REPORT .....	1
FINANCIAL STATEMENTS	
Balance Sheet.....	3
Statement of Operations and Changes in Net Assets .....	4
Statement of Functional Expenses.....	5
Combined Statement of Cash Flows.....	6
NOTES TO FINANCIAL STATEMENTS.....	7

July 18, 2016

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

## **INDEPENDENT AUDITORS' REPORT**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of **Mission Hospice & Home Care, Inc.**, which comprise the balance sheet as of December 31, 2015, and the related statements of operations 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Board of Directors  
**Mission Hospice & Home Care, Inc.**  
July 18, 2016

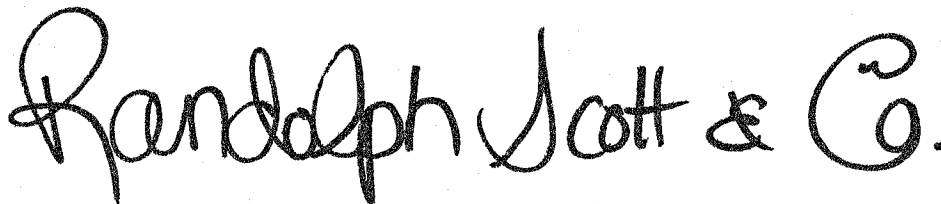
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the **Mission Hospice & Home Care, Inc.**'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A large, stylized handwritten signature in black ink that reads "Randolph Scott & Co." The signature is written in a cursive, flowing style.

**Certified Public Accountants, Inc.**  
Novato, California

**MISSION HOSPICE & HOME CARE, INC.****BALANCE SHEET****DECEMBER 31, 2015****(With Comparative Totals for 2014)**

<b><u>ASSETS</u></b>	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total 12/31/2015</u></b>	<b><u>Comparative Total 12/31/2014</u></b>
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents (Note A)	\$ 1,450,295	\$ 562,334	\$	\$ 2,012,629	\$ 1,127,016
Patient Accounts Receivable, net of allowances of \$566,281 and \$130,000 respectively	2,846,497			2,846,497	1,778,350
Pledges Receivable, net (Note E)		708,500		708,500	70,400
Other Receivable	77,931			77,931	-
Prepaid Expenses	136,120			136,120	157,247
<b>Total Current Assets</b>	<b>4,510,843</b>	<b>1,270,834</b>	<b>-</b>	<b>5,781,677</b>	<b>3,133,013</b>
<b>INVESTMENTS (Note F)</b>	<b>3,074,819</b>	<b>17,810</b>	<b>49,585</b>	<b>3,142,214</b>	<b>4,133,405</b>
<b>PROPERTY AND EQUIPMENT, NET (Note G)</b>	<b>3,279,362</b>			<b>3,279,362</b>	<b>183,361</b>
<b>NET PLEDGES RECEIVABLE (Note E)</b>	<b>147,208</b>			<b>147,208</b>	<b>181,523</b>
<b>OTHER ASSETS</b>					
Intangible Assets, net (Note H)	38,000			38,000	-
Deposits	67,510			67,510	15,365
<b>TOTAL ASSETS</b>	<b>\$ 11,117,742</b>	<b>\$ 1,288,644</b>	<b>\$ 49,585</b>	<b>\$ 12,455,971</b>	<b>\$ 7,646,667</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>					
<b>CURRENT LIABILITIES:</b>					
Current Portion of Capital Lease Payable	\$	\$	\$	\$ -	\$ 11,958
Accounts Payable	319,902			319,902	132,923
Accrued Payroll Expenses	943,363			943,363	582,959
Other Accrued Expenses	193,861			193,861	67,251
Deferred Revenue	13,608			13,608	11,973
<b>Total Current Liabilities</b>	<b>1,470,734</b>	<b>-</b>	<b>-</b>	<b>1,470,734</b>	<b>807,064</b>
<b>CAPITAL LEASE PAYABLE</b>				<b>-</b>	<b>569</b>
<b>NOTE PAYABLE (Note I)</b>	<b>1,500,000</b>			<b>1,500,000</b>	<b>-</b>
<b>COMMITMENTS AND CONTINGENCIES (Note K)</b>				<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>2,970,734</b>	<b>-</b>	<b>-</b>	<b>2,970,734</b>	<b>807,633</b>
<b>NET ASSETS:</b>					
Unrestricted	8,147,008			8,147,008	4,149,897
Board Designated Funds				-	2,000,000
Temporarily Restricted (Note B)		1,288,644		1,288,644	639,552
Permanently Restricted (Note C)			49,585	49,585	49,585
<b>TOTAL NET ASSETS</b>	<b>8,147,008</b>	<b>1,288,644</b>	<b>49,585</b>	<b>9,485,237</b>	<b>6,839,034</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 11,117,742</b>	<b>\$ 1,288,644</b>	<b>\$ 49,585</b>	<b>\$ 12,455,971</b>	<b>\$ 7,646,667</b>

See Notes to Financial Statements

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

**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 12/31/2015	Comparative Total 12/31/2014
<b>REVENUES, GAINS, AND OTHER SUPPORT:</b>					
Patient Service Revenue (net of contractual allowances and discounts) (Note A)	\$ 18,144,698	\$ -	\$ -	\$ 18,144,698	\$ 12,487,753
Provisions for allowance for revenue adjustments	(498,310)			(498,310)	(31,295)
Net Patient Services Revenue	17,646,388	-	-	17,646,388	12,456,458
Grants and Contracts	500,000	600,000		1,100,000	-
Special events revenue	161,013	151,418		312,431	224,788
Donations and memorials	1,079,903	741,738		1,821,641	925,471
In-Kind Revenue				-	4,539
Realized and Unrealized Gain / (Loss) on Investments (Note F)	(78,442)	(1,326)		(79,768)	137,494
Interest and dividends	77,595			77,595	111,672
Miscellaneous income	10,693			10,693	69,525
Net Assets Released from Donor Restrictions (Note D):					
Satisfaction of program restrictions	842,738	(842,738)		-	-
Total Revenues, Gains and Support	20,239,888	649,092	-	20,888,980	13,929,947
<b>EXPENSES:</b>					
Program Services:					
Hospice	13,459,029			13,459,029	8,982,087
Advanced Home Care	3,068,536			3,068,536	2,240,963
Transitions	183,250			183,250	76,759
Hospice House	361,959			361,959	-
Supporting Services:					
Management and General	761,123			761,123	472,498
Development	408,880			408,880	374,554
Total Expenses	18,242,777	-	-	18,242,777	12,146,861
<b>CHANGE IN NET ASSETS</b>	1,997,111	649,092	-	2,646,203	1,783,086
<b>NET ASSETS, beginning of year</b>	6,149,897	639,552	49,585	6,839,034	5,055,948
<b>NET ASSETS, end of year</b>	\$ 8,147,008	\$ 1,288,644	\$ 49,585	\$ 9,485,237	\$ 6,839,034

See Notes to Financial Statements

**MISSION HOSPICE & HOME CARE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2015**  
**(With Comparative Totals for 2014)**

	Program Services					Management and General	Development	Total	Comparative Total
	Hospice	Advanced Home Care	Transitions	Hospice House	Total Program Services			12/31/2015	12/31/2014
<b>EXPENSES:</b>									
Salaries	\$ 7,202,714	\$ 1,904,402	\$ 145,855	\$ 188,130	\$ 9,441,101	\$ 398,893	\$ 262,335	\$ 10,102,329	\$ 6,973,419
Payroll taxes	494,667	144,561	9,032	16,811	665,071	26,938	20,853	712,862	512,128
Employee benefits	709,366	144,283	7,649	8,054	869,352	35,765	25,874	930,991	659,334
Total Personnel Costs	8,406,747	2,193,246	162,536	212,995	10,975,524	461,596	309,062	11,746,182	8,144,881
Advertising & Marketing	34,874	11,031	831	1,505	48,241	9,580	6,511	64,332	83,787
Computer Support Expense	228,244	67,784	4,262	8,173	308,463	78,206	16,680	403,349	276,461
Deprec. & Amortiz. Expense	46,457	12,297	868	35,668	95,290	15,919	2,388	113,597	79,271
Dues, Licenses & Subscriptions	65,854	20,263	406	3,971	90,494	7,446	1,117	99,057	77,136
Employee Educ/Training	94,550	26,598	902	2,388	124,438	16,105	2,416	142,959	57,896
Equipment Lease	6,899	1,826	129	247	9,101	2,364	355	11,820	6,762
In-Kind Expenses					-			-	4,539
Insurance	37,802	10,006	706	4,638	53,152	12,953	1,943	68,048	46,210
Interest & Fees	5,764	1,526	108	13,460	20,858	1,975	296	23,129	11,087
Office Supplies	67,083	22,405	986	6,401	96,875	18,085	2,713	117,673	82,894
Other Expense	300	375	-	-	675	-	-	675	2,703
Patient Care Expenses	3,978,663	485,602	85	13,218	4,477,568	-	-	4,477,568	2,727,430
Postage & Printing	71,316	11,107	701	1,344	84,468	12,860	9,369	106,697	21,145
Professional Fees	161,674	75,362	3,566	17,660	258,262	45,688	41,330	345,280	182,327
Property Tax	-	-	-	8,470	8,470	-	-	8,470	-
Rent	138,886	77,664	2,594	16,973	236,117	47,588	7,138	290,843	213,917
Repairs & Maintenance	15,157	4,954	283	5,576	25,970	5,193	779	31,942	4,758
Telephone	38,250	10,196	1,193	1,483	51,122	12,259	2,799	66,180	32,985
Travel & Training	50,314	14,171	2,905	2,153	69,543	9,813	3,460	82,816	77,611
Utilities	10,195	22,123	189	5,636	38,143	3,493	524	42,160	13,061
Total Operating Costs	5,052,282	875,290	20,714	148,964	6,097,250	299,527	99,818	6,496,595	4,033,275
<b>Total Expenses</b>	<b>\$ 13,459,029</b>	<b>\$ 3,068,536</b>	<b>\$ 183,250</b>	<b>\$ 361,959</b>	<b>\$ 17,072,774</b>	<b>\$ 761,123</b>	<b>\$ 408,880</b>	<b>\$ 18,242,777</b>	<b>\$ 12,178,156</b>

See Notes to Financial Statements

**MISSION HOSPICE & HOME CARE, INC.****COMBINED STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2015****(With Comparative Totals for 2014)**

	Total 2015	Total 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 2,646,203	\$ 1,783,086
Adjustments to Reconcile Net Revenue and Support to Cash Provided by Operating Activities:		
Realized (Gain) / Loss on Investments (Note F)	(421,689)	(15,578)
Unrealized (Gain) / Loss on Investments (Note F)	501,457	(121,916)
Depreciation (Note G)	111,597	79,272
Amortization (Note H)	2,000	-
(Increase) / Decrease in Assets:		
Accounts Receivable	(1,068,148)	(503,243)
Pledges Receivable	(603,785)	(251,923)
Other Receivable	(77,931)	
Prepaid Expenses	21,127	(94,365)
Assets Reserved for Unemployment Claims	-	64,952
Deposits	(52,145)	13,727
Increase / (Decrease) in Liabilities:		
Accounts Payable	186,979	(171,370)
Accrued Payroll Expenses	360,404	217,608
Other Accrued Expenses	126,610	
Deferred Revenue	1,635	11,973
Liability for Unemployment Claims	-	(64,952)
Total Adjustments	(911,889)	(835,815)
Net Cash Provided (Used) By Operating Activities:	1,734,314	947,271
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Property and Equipment	(3,207,598)	(108,796)
Purchase of Investments	(986,319)	(1,109,744)
Proceeds from Sale of Investments	1,897,742	27,210
Purchase of Goodwill	(40,000)	-
Net Cash Provided (Used) By Investing Activities:	(2,336,175)	(1,191,330)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash Received from Note Payable	1,500,000	-
Payments made on Capital Lease, less interest of \$540 and \$2,300, respectively	(12,527)	(15,333)
Net Cash Provided (Used) By Financing Activities:	1,487,473	(15,333)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	885,612	(259,392)
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	1,127,016	1,386,408
<b>CASH AND CASH EQUIVALENTS, End of year</b>	\$ 2,012,629	\$ 1,127,016
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest Paid	\$ 11,780	\$ 2,300

See Notes to Financial Statements



## MISSION HOSPICE & HOME CARE, INC.

### NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

(With Comparative Totals for 2014)

#### NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 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-limiting 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

The **Hospice, Advanced Care and Transitions** programs together provide a Continuum of Care that allows us to serve patients at every stage of a life-limiting illness, throughout the last years of life. An interdisciplinary team is designed to meet a patient's medical, emotional, and spiritual needs as they evolve and change over the course of an illness. Through ongoing assessment, patients may move between programs as their illness either progresses or improves. The Hospice House, known as the 'Mission House', will extend the continuum to include home-like care as needed during the most challenging moments of Hospice service.

**Hospice**, the largest program, 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 and life expectancy of six months or less who desire to maintain quality of life. Hospice is chosen by the patient with a doctor's consent, and is covered by Medicare, Medi-Cal and private insurance carriers.

**Advanced Care** provides clinical services to patients considered to be homebound with a skilled care need. This home -based program serves patients with a range of life-limiting diagnoses who wish to continue treatment options or hope to slow the rate of decline as an illness progresses. Key focus areas are Cancer, Congestive Heart Failure (CHF), Wound Care, Respiratory diseases and other categories of Palliative Care.

**Transitions** offer nursing evaluation, social work consultation and volunteer services to patients needing care management, emotional support and practical assistance. This program is for patients who have a life-limiting illness with a probable life expectancy of one year or less. They may receive life-prolonging treatments but do not require ongoing medical care in the home. Transitions are offered free of charge to all participants and is funded by donations and grants.

**Hospice House** completes the Continuum of Care. The Agency acquired a residential hospice facility in San Mateo named 'Mission House' in September. Hospice house provides round-the-clock hospice care for patients who can no longer stay in their own homes.

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-**  
**(Continued)**

**Basis of Accounting and Reporting**

**Accounting Method:** The Agency maintains its records on the accrual basis of accounting.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net assets, and revenues and expenses for the reporting period. Actual results could differ from those estimates.

**Accounting in Accordance with FASB ASC 820-10**

The Agency adopted FASB ASC 820-10, *Fair Value Measurements*, (FASB ASC 820-10) which provides a framework for measuring fair value under generally accepted accounting principles. FASB ASC 820-10 applies to all financial instruments that are being measured and reported on a fair value basis. FASB ASC 820-10 has been applied prospectively as of the beginning of the year.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 also established a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 can also includes federal securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities. The Agency holds no investments at Level 2 at December 31, 2015.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. The Agency holds no investments at Level 3 at December 31, 2015.

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(Continued)**

**Accounting in Accordance with FASB ASC 820-10-(Continued):**

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Agency in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Agency's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Agency uses prices and inputs that are current as of the measurement date, including during the periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

Securities held-to-maturity and available for sale:

When applicable, management determines the appropriate classification of debt securities at the time of purchase and reevaluates as of each statement of financial position date. Debt securities are classified as held-to-maturity when the Agency has the positive intent and ability to hold the securities to maturity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. When the agency holds these securities, the amortization is included in investment income. When the fair value of a debt security classified as held-to-maturity is different than its amortized cost, the Agency recognizes the fair value in the financial statements with the unrealized gains and losses reported in the financial statements.

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(Continued)**

**Accounting in Accordance with FASB ASC 820-10-(Continued):**

Marketable equity securities and debt securities not classified as held-to-maturity are classified as available-for-sale.

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in these financial statements under net realized and unrealized gain/losses on investments. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in investment income.

As further discussed in Note F, the Agency determines the fair value of investments by obtaining the market price per share or unit at year end.

**Fair Values of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of financial instruments:

*Cash and cash equivalents:* The carrying amount reported in the statement of financial position for cash and cash equivalents approximates its fair value.

*Accounts receivable and accounts payable:* The carrying amounts of accounts receivable and accounts payable in the statement of financial position approximates fair value.

*Lease obligation:* The carrying value of the Agency's debt approximates fair value because of the variable nature of market interest rates.

**Concentration of Revenue Sources**

During the year ended December 31, 2015, the Agency had one major revenue source Centers for Medicare and Medicaid Services that accounted for approximately 80% 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, 2015, balances above the insured limits were approximately \$1,800,000.

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE A – GENERAL AND SUMMARY OF 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 E, 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 restricted. 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 G, property and equipment is depreciated by the straight-line method over the estimated useful lives of the respective assets which range from five to ten years.

**Paid Time Off and Sick Leave Benefits**

Employee Paid Time Off (PTO) benefits earned, but not used, are recognized as liabilities of

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(Continued)**

**Paid Time Off and Sick Leave Benefits – (Continued)**

the Agency, and are recorded in the program funds for which each employee works. Total accrued PTO at December 31, 2015 was \$731,170. Regular full-time and regular part-time employees accrue PTO according to the following schedule:

<u>Length of Service in Months</u>	<u>Accrual Days Per Year</u>	<u>Accrual Hours Every Pay Period (Full-Time Employment)</u>
1 - 36 mo.	25	8.34
37 - 72 mo.	30	10.00
+73 mo.	35	11.67

Extended sick leave benefits are earned and accumulated for each employee. However, accumulated extended sick leave benefits are not recognized as liabilities of the Agency because the payment of such benefits is not probable or estimable.

**Program Revenue**

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

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

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

Medicare & Medicaid Fees	\$ 17,040,852
Private Fees for Services	1,103,846
	<u>\$ 18,144,698</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(Continued)**

**Contributions and Grants**

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

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

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.

Contributions-in-Kind, if any, are recognized in accordance with the provisions of ASC 958-605-45. Donated equipment and other donated goods are recorded at their estimated 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 year ended December 31, 2015, the agency received \$12,395 hours of contributed services.

Grants that do not represent exchange transactions are recognized as contributions in accordance with ASC 958-605.

**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**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(Continued)**

**Mission Hospice Endowment Fund**

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

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

*Interpretation of Relevant Law*

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

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

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

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

*Investment income*

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



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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(Continued)**

**Mission Hospice Endowment Fund-(Continued)**

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

*Investment expenses*

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

*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 of the Endowment Fund and should be avoided.

**Income Taxes**

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(Continued)**

**Summarized Information for 2014**

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, 2014, from which the summarized information was obtained. Certain prior-year amounts have been reclassified to conform to the current year's financial statement presentation.

**NOTE B - TEMPORARILY RESTRICTED NET ASSETS**

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

At December 31, 2015, temporarily restricted assets available for future use are as follows:

Capital Campaign f/b/o Hospice House	\$	1,270,834
Endowment Fund		17,810
Total Temporarily Restricted Net Assets	\$	<u>1,288,644</u>

**NOTE C – ENDOWMENT FUND**

The composition of the Agency's endowment fund by net asset class and a reconciliation of the beginning and ending balance of the Agency's endowment follow:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ -	\$ 19,136	\$ 49,585	\$ 68,721
Investment return:				
Investment income		(1,326)		(1,326)
Total investment return	-	(1,326)	-	(1,326)
Contributions				-
Endowment Net Assets, end of year	\$ -	\$ 17,810	\$ 49,585	\$ <u>67,395</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE D - 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, 2015, net assets released from donor restrictions were as follows:

Capital Campaign	\$ <u>842,738</u>
------------------	-------------------

**NOTE E – PLEDGES RECEIVABLE**

Pledge receivable are unconditional promises to pay a contain amount and consist of the following at December 31, 2015

Pledges Receivable	\$ 865,629
Less Discount for tuture payments	<u>9,921</u>
Pledges Receivable, Net	\$ <u>855,708</u>
Current Pledges Receivable, net	\$ 708,500
Non-current pledges receivable, net	<u>147,208</u>
	\$ <u>855,708</u>

Pledges due beyond one year have been discounted at an annual rate of 3.5%.

**NOTE F – INVESTMENTS**

The following table sets forth by level, within the fair value hierarchy, the investments at fair value as of December 31, 2015.

	December 31, 2015				Total Estimated Fair Value 12/31/14
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value 12/31/15	
<b><u>Cash / Money Funds</u></b>	\$ 170,651	\$	\$	\$ 170,651	\$ 183,915
<b><u>Level 1 Hierarchy:</u></b>					
Available for Sale:					
Closed End Funds	1,466,830	137,350		1,604,180	2,094,273
Equity Mutual Funds	<u>1,492,936</u>		<u>(125,553)</u>	<u>1,367,383</u>	<u>1,855,217</u>
	\$ <u>3,130,417</u>	\$ <u>137,350</u>	\$ <u>(125,553)</u>	\$ <u>3,142,214</u>	\$ <u>4,133,405</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE F – INVESTMENTS - (Continued)**

Total return on investments during the year ended December 31, 2015 was as follows:

	<u>Interest &amp; Dividends</u>	<u>Realized Gain / (Loss) on Sale of Investments</u>	<u>Current Year's Unrealized Gain / (Loss) on Investments</u>	<u>Total Return on Investment</u>
Closed End Funds	\$ 31,976	\$ 404,650	\$ (403,906)	\$ 32,720
Equity Mutual Funds	45,581	17,039	(97,551)	(34,931)
Other Cash Deposits	38	-	-	38
Total:	<u>\$ 77,595</u>	<u>\$ 421,689</u>	<u>\$ (501,457)</u>	<u>\$ (2,173)</u>

During the year ended December 31, 2015, available for sale securities were sold for total proceeds of \$1,897,742. The gross realized gain on these sales totaled \$421,689. For the purpose of determining gross realized gains or losses, the cost of securities sold is based on specific identification.

The current year's unrealized holding loss on investments of (\$501,457) noted above, is the change between the current year's gross unrealized gain \$11,795 and the prior year's gross unrealized gain of \$513,252. The net change of (\$501,457) has been included under investment income in the statement of activities for the year ended December 31, 2015.

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, 2015.

*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.

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE G - PROPERTY AND EQUIPMENT**

At December 31, 2015, property and equipment consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 1,445,694	\$	\$ 1,445,694
Building	1,613,311	20,166	1,593,145
Leasehold improvements	159,992	60,249	99,743
Furniture and Fixtures	243,222	201,330	41,892
Equipment	413,225	314,337	98,888
Total	<u>\$ 3,875,444</u>	<u>\$ 596,082</u>	<u>\$ 3,279,362</u>

For the year ended December 31, 2015, the total depreciation expense was \$111,597.

**NOTE H - INTANGIBLE ASSETS**

At December 31, 2015, the Agency's intangible assets consisted of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Goodwill	<u>\$ 40,000</u>	<u>\$ 2,000</u>	<u>\$ 38,000</u>

For the year ended December 31, 2015, the total amortization expense was \$2,000.

**NOTE I – NOTE PAYABLE**

At December 31, 2015, Agency's note payable balance consisted of the following:

Note payable to a commercial bank, secured by real property, are due in monthly interest payment only at 3.25% interest rate .	\$ 1,500,000
Less: Current Portion	-
Long-Term Note Payable	<u>\$ 1,500,000</u>

Future annual payments on the note payable are as follows:

Year Ending December 31:	
2016-2021	\$ -
Thereafter	<u>1,500,000</u>
Total future principal payments	<u>\$ 1,500,000</u>

For the year ended December 31, 2015, the total interest expense was \$11,240.

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE J – 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, 2015 was \$157,020.

**NOTE K- COMMITMENTS AND CONTINGENCIES**

**Commitments**

The Agency leases facilities for conducting its operations. At times, the lease obligations 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 in excess of one year as of December 31, 2015 are:

	Facility Rentals	Postage Rental	Total
Year Ending: December 31, 2016	\$ 378,120	\$ 576	\$ 378,696
December 31, 2017	396,546	576	397,122
December 31, 2018	417,311	432	417,743
December 31, 2019	433,999	-	433,999
December 31, 2020	442,944	-	442,944
	<u>\$ 2,068,920</u>	<u>\$ 1,584</u>	<u>\$ 2,070,504</u>

Total rent expense for the year ended December 31, 2015 was \$290,843.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2015**

**(With Comparative Totals for 2014)**

**NOTE L – SUBSEQUENT EVENTS**

The Agency has evaluated its financial position and activities from the December 31, 2015 year end of this report through July 18, 2016, which is the date that the financial statements were available to be issued. No material subsequent event items that required recognition or disclosure were identified.