

HOSPICE OF THE FOOTHILLS

FINANCIAL STATEMENTS
June 30, 2022 and 2021

HOSPICE OF THE FOOTHILLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hospice of the Foothills
Grass Valley, California

Opinion

We have audited the accompanying financial statements of Hospice of the Foothills (the "Organization"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospice of the Foothills as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hospice of the Foothills and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hospice of the Foothills' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hospice of the Foothills' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hospice of the Foothills' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Propp Christensen Caniglia LLP

October 20, 2022
Roseville, California

HOSPICE OF THE FOOTHILLS

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

ASSETS

	2022	2021
Current assets:		
Cash and cash equivalents	\$ 3,465,544	\$ 4,346,105
Certificate of deposits	2,013,984	-
Investments	687,298	743,438
Accounts receivable, net	669,090	470,898
Prepaid expenses	144,398	65,707
Total current assets	6,980,314	5,626,148
Property and equipment, net	4,293,547	4,603,867
Operating lease right-of-use assets	329,613	-
Endowment assets:		
Cash and cash equivalents	29,048	49,332
Investments	1,229,651	1,373,780
Total endowment assets	1,258,699	1,423,112
Operating deposits	12,568	7,887
Total assets	<u>\$ 12,874,741</u>	<u>\$ 11,661,014</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 142,386	\$ 175,450
Accrued payroll and related expenses	162,291	155,038
Accrued paid time-off benefits	289,255	287,841
Deferred revenue	195,812	1,200
Other current liabilities	5,241	24,304
Notes payable, current portion	329,901	300,012
Operating lease liabilities, current portion	140,300	-
Total current liabilities	1,265,186	943,845
Long-term liabilities:		
Notes payable, less current portion	3,234,186	3,537,506
Operating lease liabilities, less current portion	257,930	-
Total long-term liabilities	3,492,116	3,537,506
Total liabilities	4,757,302	4,481,351
Net assets:		
Without donor restrictions:		
Undesignated	6,858,740	5,756,551
Board designated endowment	442,757	607,170
With donor restrictions	815,942	815,942
Total net assets	8,117,439	7,179,663
Total liabilities and net assets	<u>\$ 12,874,741</u>	<u>\$ 11,661,014</u>

The accompanying notes are an integral part
of these financial statements.

HOSPICE OF THE FOOTHILLS

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2022 and 2021

	Without Donor Restrictions	With Donor Restrictions	2022 Total
Revenues, gains and other support:			
Contributions	\$ 1,283,080	\$ 120,713	\$ 1,403,793
Grants	2,000	-	2,000
Medicare/Medi-Cal reimbursements	6,273,869	-	6,273,869
Private insurance reimbursements	155,096	-	155,096
Rental income	93,634	-	93,634
Thrift stores	1,219,132	-	1,219,132
In-kind fundraising revenue	42,743	-	42,743
Net return (loss) on investments	(254,664)	26,304	(228,360)
Other income	16,051	-	16,051
COVID relief funds	176,084	-	176,084
Events	60,339	-	60,339
Gain on disposal of property and equipment	1,244	-	1,244
Net assets released from restrictions	147,017	(147,017)	-
Total revenue, gains and other support	9,215,625	-	9,215,625
Expenses:			
Program services	5,351,691	-	5,351,691
Supporting services:			
Management and general	1,459,896	-	1,459,896
Fundraising:			
Thrift stores	1,066,969	-	1,066,969
Other fundraising and marketing	399,293	-	399,293
Total fundraising	1,466,262	-	1,466,262
Total expenses	8,277,849	-	8,277,849
Change in net assets	937,776	-	937,776
Net assets, beginning of year	6,363,721	815,942	7,179,663
Net assets, end of year	\$ 7,301,497	\$ 815,942	\$ 8,117,439

The accompanying notes are an integral part
of these financial statements.

HOSPICE OF THE FOOTHILLS

STATEMENTS OF ACTIVITIES (CONTINUED)

For the Years Ended June 30, 2022 and 2021

	Without Donor Restrictions	With Donor Restrictions	2021 Total
Revenues, gains and other support:			
Contributions	\$ 797,612	\$ 99,085	\$ 896,697
Grants	27,500	-	27,500
Medicare/Medi-Cal reimbursements	7,156,175	-	7,156,175
Private insurance reimbursements	126,121	-	126,121
Rental income	93,202	-	93,202
Thrift stores	1,267,866	-	1,267,866
In-kind fundraising revenue	56,455	-	56,455
Net return on investments	57,413	217,425	274,838
Other income	21,181	-	21,181
COVID relief funds	323,089	-	323,089
Events	68,586	-	68,586
Loss on disposal of property and equipment	(4,052)	-	(4,052)
Net assets released from restrictions	316,510	(316,510)	-
Total revenue, gains and other support	10,307,658	-	10,307,658
Expenses:			
Program services	5,556,234	-	5,556,234
Supporting services:			
Management and general	1,335,632	-	1,335,632
Fundraising:			
Thrift stores	1,194,665	-	1,194,665
Other fundraising and marketing	383,626	-	383,626
Total fundraising	1,578,291	-	1,578,291
Total expenses	8,470,157	-	8,470,157
Change in net assets	1,837,501	-	1,837,501
Net assets, beginning of year	4,526,220	815,942	5,342,162
Net assets, end of year	\$ 6,363,721	\$ 815,942	\$ 7,179,663

The accompanying notes are an integral part
of these financial statements.

HOSPICE OF THE FOOTHILLS

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2022 and 2021

		Supporting Services		
	Program Services	Management and General	Fundraising	2022 Total
Administration	\$ -	\$ 4,703	\$ -	\$ 4,703
Advertising	1,353	1,390	11,662	14,405
Auto and truck costs	-	-	7,641	7,641
Bad debt	478	-	-	478
Community education	762	1,844	-	2,606
Computer costs	84,664	27,751	8,210	120,625
Credit card fees	-	-	23,652	23,652
Direct patient expenses	718,339	-	-	718,339
Dues, subscriptions and library	5,847	22,572	1,292	29,711
Employee benefits	654,712	182,698	172,433	1,009,843
Equipment rental	6,197	3,021	851	10,069
Events	-	-	2,432	2,432
In-kind	-	-	42,743	42,743
Insurance	30,095	12,338	15,844	58,277
Interest and finance charges	98,463	13,958	24,131	136,552
Janitorial	-	4,296	-	4,296
Medical director	32,000	-	-	32,000
Miscellaneous	35,821	1,936	34,490	72,247
Occupancy	-	-	204,098	204,098
Office expenses	10,885	4,549	5,423	20,857
Payroll taxes	247,311	60,475	55,126	362,912
Postage	-	5,516	6,013	11,529
Printing	2,137	737	10,296	13,170
Professional fees	13,374	161,465	6,288	181,127
Repairs and maintenance	126	106,602	27,652	134,380
Salaries	2,831,893	693,797	619,397	4,145,087
Staff development	10,036	82,769	608	93,413
Supplies	-	882	5,146	6,028
Telephone	42,656	9,010	8,981	60,647
Trash removal	-	4,904	31,543	36,447
Travel	59,823	931	1,059	61,813
Utilities	18,645	4,608	37,273	60,526
Workers compensation	120,827	7,766	29,192	157,785
Total expenses before depreciation	5,026,444	1,420,518	1,393,476	7,840,438
Depreciation	325,247	39,378	72,786	437,411
Total expenses	<u>\$ 5,351,691</u>	<u>\$ 1,459,896</u>	<u>\$ 1,466,262</u>	<u>\$ 8,277,849</u>

The accompanying notes are an integral part
of these financial statements.

HOSPICE OF THE FOOTHILLS

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

For the Years Ended June 30, 2022 and 2021

		Supporting Services		
	Program Services	Management and General	Fundraising	2021 Total
Administration	\$ -	\$ 3,441	\$ -	\$ 3,441
Advertising	1,456	-	12,345	13,801
Auto and truck costs	-	-	12,211	12,211
Bad debt	844	-	-	844
Community education	377	3,884	-	4,261
Computer costs	68,722	30,662	12,017	111,401
Credit card fees	-	-	23,150	23,150
Direct patient expenses	765,588	-	-	765,588
Dues, subscriptions and library	6,144	19,950	238	26,332
Employee benefits	635,765	160,574	202,741	999,080
Equipment rental	4,645	3,518	1,380	9,543
Events	-	-	5,939	5,939
In-kind	-	-	45,455	45,455
Insurance	25,384	14,551	12,989	52,924
Interest and finance charges	158,466	10,723	5,282	174,471
Janitorial	-	4,531	-	4,531
Medical director	22,246	-	-	22,246
Miscellaneous	15,848	1,958	39,058	56,864
Occupancy	-	-	249,153	249,153
Office expenses	11,955	4,531	4,549	21,035
Payroll taxes	252,445	56,264	64,644	373,353
Postage	-	5,221	5,926	11,147
Printing	1,363	1,632	10,251	13,246
Professional fees	3,092	162,930	-	166,022
Repairs and maintenance	-	46,273	11,224	57,497
Salaries	2,908,621	658,354	707,542	4,274,517
Staff development	8,890	83,023	70	91,983
Supplies	-	871	13,311	14,182
Telephone	67,389	13,664	14,063	95,116
Trash removal	-	4,600	39,723	44,323
Travel	63,384	1,069	2,193	66,646
Utilities	23,710	10,458	37,447	71,615
Workers compensation	118,019	5,638	27,344	151,001
Total expenses before depreciation	5,164,353	1,308,320	1,560,245	8,032,918
Depreciation	391,881	27,312	18,046	437,239
Total expenses	<u>\$ 5,556,234</u>	<u>\$ 1,335,632</u>	<u>\$ 1,578,291</u>	<u>\$ 8,470,157</u>

The accompanying notes are an integral part of these financial statements.

HOSPICE OF THE FOOTHILLS

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 937,776	\$ 1,837,501
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	437,411	437,239
Net realized and unrealized (gains) losses	268,593	(229,054)
(Gain) loss on disposal of property and equipment	(1,244)	4,052
Provision for bad debts	478	844
Operating lease right-of-use assets	(401,694)	-
Operating lease liabilities	401,694	-
Amortization - right-of-use assets	72,081	-
Changes in operating assets and liabilities:		
Accounts receivable	(198,670)	(294,294)
Prepaid expenses	(78,691)	8,918
Operating deposits	(4,681)	6,445
Accounts payable	(33,064)	71,791
Accrued payroll and related expenses	7,253	39,648
Accrued paid time-off benefits	1,414	55,915
Deferred revenue	194,612	(321,889)
Other current liabilities	(19,063)	20,762
Operating lease liabilities	(3,464)	-
Net cash provided by operating activities	1,580,741	1,637,878
Cash flows from investing activities:		
Purchases of investments	(169,788)	(269,567)
Purchases of certificates of deposit	(2,019,000)	-
Proceeds from sale of investments	106,480	235,245
Purchases of property and equipment	(125,847)	(62,237)
Net cash used in investing activities	(2,208,155)	(96,559)
Cash flows from financing activities:		
Principal payments on notes payable	(273,431)	(226,285)
Net change in cash and cash equivalents	(900,845)	1,315,034
Cash and cash equivalents, beginning of year	4,395,437	3,080,403
Cash and cash equivalents, end of year	\$ 3,494,592	\$ 4,395,437
Ending cash and cash equivalents includes the following accounts:		
Cash and cash equivalents - operating	\$ 3,465,544	\$ 4,346,105
Cash and cash equivalents - endowment	29,048	49,332
	\$ 3,494,592	\$ 4,395,437
Supplementary disclosure of cash flow information:		
Interest paid	\$ 136,552	\$ 174,471

The accompanying notes are an integral part of these financial statements.

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1: NATURE OF ACTIVITIES

Hospice of the Foothills (the "Organization"), is a community-based, non-profit organization incorporated in 1979 under the laws of the State of California. It is staffed with volunteer and paid professionals serving terminally ill patients and their families in Western Nevada County and surrounding communities. A combination of volunteer time and services, private donations from the community, memorial donations, bequests, private foundations, Friends of Hospice, Medicare, Medi-Cal, and private insurance allows the care to be offered at no cost to the patient.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Organization presents its financial statements in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958, Subtopic 210 (FASB ASC 958-210), *Presentation of Financial Statements of Not-for-Profit Entities*. Under FASB ASC 958-210, the Organization is required to report information regarding its financial position and activities according to the following two classes of net assets:

Net assets without donor restrictions - Net assets that are not subject to stipulations.

Net assets with donor restrictions - Net assets that are subject to stipulations that will be met by actions or the passage of time.

Revenues and gains and losses on investments are reported as changes in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as changes in net assets without donor restrictions. Expirations of donor restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Contributions without donor restrictions are reported as revenues which increase net assets without donor restrictions. Expirations of donor restrictions on contributions whose restrictions are met in the same reporting period have been reported as reclassifications between the applicable classes of net assets.

The Organization implements the guidance provided by ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*, to provide a decision-making model to assist entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional.

In accordance with the provisions of FASB ASC 606, the Organization's other income received and exchange transactions are not recognized as revenues until the revenue is earned, which is at the time when the services are provided.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all short-term investment securities with a maturity of three months or less, and convertible to a known amount of cash, to be cash equivalents. Certificate of deposits with maturity over ninety days are reported at their cost plus accrued interest.

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts and Pledges Receivable

Accounts and pledges receivable have been reported at the outstanding balance, less an allowance for doubtful accounts. The Organization provides for losses on receivable balances using the allowance method. This method is based on experience and other circumstances which may affect the collectability of the balance. Uncollectible receivables are charged off when management determines the receivable will not be collected.

Inventory

Inventories in the Organization's thrift stores consist solely of donated items and are not reflected on the balance sheet. Accounting principles dictate that inventory be stated at the lower of cost or market value. Inventory at any point in time is valued at negligible amounts and not recorded on the statement of financial position.

Investments

The Organization's investments are presented under FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under FASB ASC 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Fair value is based on quoted market prices for debt and marketable equity securities, published unit values for mutual funds, and money market mutual funds. Unrealized gains and losses are included as earnings in the statements of activities. Investment income is reported as increases in net assets without donor restrictions in the reporting period in which the income and gains are recognized.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair market value at the date of receipt. The Organization maintains a minimum capitalization threshold of \$1,500. The Organization provides for depreciation over the estimated useful lives of the assets using the straight-line method. The estimated lives of these assets range from 3 to 25 years. Expenditures for major renewals and betterments, which extend the useful lives of property and equipment, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Income Tax Status

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701d of the California Revenue and Taxation Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of IRC Section 509(a)(2) and qualifies for deductible contributions as provided in Section 170(b)(1)(A). After they are filed, the Organization's income tax returns remain subject to examination by taxing authorities generally three years for federal returns and four years for state returns. Activities unrelated to the Organization's mission may be subject to unrelated business income tax.

Contributed Nonfinancial Assets

The Organization recognized contributed nonfinancial assets within in-kind fundraising revenue, including contributed services, rent and other goods. Contributions in-kind, when received, are recognized at fair market value. The majority of contributed nonfinancial assets was used as fundraising activities. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

The Organization receives donated investment advisory services. The Organization pays for most services requiring specific expertise. However, individuals volunteer their time and perform a variety of tasks that assist the Organization.

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Nonfinancial Assets (Continued)

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities included:

	2022	2021
Services	\$ 11,000	\$ 11,000
Rent	15,957	28,410
Other goods	15,786	17,045
	<u>\$ 42,743</u>	<u>\$ 56,455</u>

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2022 and 2021 totaled \$14,405 and \$13,801, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue, and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Costs specifically identified with programs are directly allocated to those functions. All costs not identifiable with programs, but indispensable to the conduct of such programs and activities and to the Organization's existence, are included as management and general expenses. Expenses that benefit more than one function of the Organization are allocated among the functions based generally on the amount of time and effort spent by personnel on each function.

Fair Value Measurements

The Organization's investments are measured under the provisions of FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements for fair value measurements.

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on the fair value hierarchy established in FASB ASC 820-10. The standard describes three levels of inputs that may be used to measure fair value (Level 1, Level 2, and Level 3).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Organization's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Organization's own data.

HOSPICE OF THE FOOTHILLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following methods and assumptions were used by the Organization in estimating the fair value of its financial instruments: Fair values, which are the amounts reported in the statement of financial position, are based on quoted market prices. There have been no changes in the methodology used at June 30, 2022 and 2021.

The Organization has adopted the provisions of FASB ASC 820 as revised by ASU 2018-13, *Fair Value Measurement* (Topic 820): *Changes to the disclosure requirements for Fair Value Measurement*. ASU 2018-13 modifies the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The Organization has retrospectively adopted ASU 2018-13 as of June 30, 2021 with no effect to previously reported change in net assets or net assets.

Debt Issuance Costs

In accordance with the requirements of FASB ASC 835-30, debt issuance costs are presented as a reduction of the carrying amount of the debt rather than as an asset. Amortization of the debt issuance costs is reported as interest expense in the statements of activities.

Leases

The Organization has adopted the provisions of FASB ASC 842 as revised by ASU 2016-02 using the optional transition method which allows entities to continue to apply historical accounting guidance in the comparative periods presented in the year of adoption. Accordingly, the Organization's financial statements for the reported periods after July 1, 2021 are presented under this amended guidance, while prior period amounts are not adjusted and continued to be reported in accordance with historical accounting guidance.

The Organization elected to apply the following package of practical expedients on a consistent basis permitting entities not to reassess: (i) whether any expired or existing contracts are or contain a lease; (ii) lease classification for any expired or existing leases and (iii) whether initial direct costs for any expired or existing leases qualify for capitalization under the amended guidance.

The impact of adopting the amended guidance primarily relates to the recognition of lease assets and lease liabilities on the balance sheet for all leases previously classified as operating leases. The Organization recognized \$401,695 of right-of-use assets and related lease liabilities on November 1, 2021 for a new lease contract that was classified as operating leases. Leases with an initial term of 12 months or less were not been recorded on the balance sheet. The Organization's accounting for financing leases, which were formerly referred to as capital leases, remained substantially unchanged. There were no other material impacts on the financial statements. See Note 12 for additional information and disclosures related to the adoption of this amended guidance.

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through October 20, 2022, the date that the financial statements were available to be issued.

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 3: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization's financial assets available within one year of the balance sheet date for general expenditures are as follows:

	2022	2021
Current financial assets:		
Cash and cash equivalents	\$ 3,465,544	\$ 4,346,105
Certificate of deposits	2,013,984	-
Investments	687,298	743,438
Accounts receivable, net	669,090	470,898
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,835,916</u>	<u>\$ 5,560,441</u>

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	2022	2021
Medicare	\$ 541,513	\$ 381,316
MediCal	68,603	42,281
Private	57,028	20,181
Other	4,446	28,151
Subtotal	671,590	471,929
Less allowance for doubtful accounts	<u>(2,500)</u>	<u>(1,031)</u>
Total accounts receivable, net	<u>\$ 669,090</u>	<u>\$ 470,898</u>

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2022	2021
Land and land improvements	\$ 1,890,704	\$ 1,874,704
Buildings	7,958,665	7,940,307
Leasehold improvements	113,626	52,318
Furniture and fixtures	44,727	94,104
Equipment	7,507	7,507
Software	256,144	256,144
Office equipment	292,567	291,429
Vehicles	55,674	55,674
Total property and equipment	10,619,614	10,572,187
Less accumulated depreciation	<u>(6,326,067)</u>	<u>(5,968,320)</u>
Total property and equipment, net	<u>\$ 4,293,547</u>	<u>\$ 4,603,867</u>

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 6: INVESTMENTS

Investments consist of the following at June 30:

	2022		2021	
	Cost	Market Value	Cost	Market Value
Cash equivalents				
Endowment	<u>\$ 29,048</u>	<u>\$ 29,048</u>	<u>\$ 49,332</u>	<u>\$ 49,332</u>
Investments				
Endowment:				
Stock funds	\$ 438,798	\$ 526,099	\$ 399,161	\$ 600,855
Taxable bond funds	<u>765,299</u>	<u>703,552</u>	<u>745,349</u>	<u>772,925</u>
Subtotal	<u>1,204,097</u>	<u>1,229,651</u>	<u>1,144,510</u>	<u>1,373,780</u>
General:				
Stock funds	174,221	201,126	158,535	217,515
Taxable bond funds	<u>510,684</u>	<u>486,172</u>	<u>515,961</u>	<u>525,923</u>
Subtotal	<u>684,905</u>	<u>687,298</u>	<u>674,496</u>	<u>743,438</u>
Total investments	<u>\$ 1,889,002</u>	<u>\$ 1,916,949</u>	<u>\$ 1,819,006</u>	<u>\$ 2,117,218</u>

The following is a summary of net return on investments for the years ended June 30:

	2022	2021
Interest and dividends	\$ 48,242	\$ 64,207
Net realized/unrealized gain (loss)	(268,593)	229,054
Investment fees	<u>(8,009)</u>	<u>(18,423)</u>
Net return on investments	<u>\$ (228,360)</u>	<u>\$ 274,838</u>

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 7: FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets that are measured at fair value on a recurring basis as of June 30, 2022 and 2021:

	Assets at Fair Value as of June 30, 2022			
	Level 1	Level 2	Level 3	Total
Stock funds	\$ 727,225	\$ -	\$ -	\$ 727,225
Taxable bond funds	1,189,724	-	-	1,189,724
Total investments	<u>\$ 1,916,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,916,949</u>
	Assets at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Stock funds	\$ 818,370	\$ -	\$ -	\$ 818,370
Taxable bond funds	1,298,848	-	-	1,298,848
Total investments	<u>\$ 2,117,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,117,218</u>

NOTE 8: ACCRUED PAID TIME-OFF BENEFITS

The Organization provides paid time-off benefits for its regular full-time and regular part-time employees that accrue from their date of hire and vest after 30 days of employment. Eligible employees accrue paid time-off hours based upon the scheduled number of regular hours the employee works per week (up to a maximum of 40 regular hours) as well as the number of years of service with the Organization. Temporary and per diem employees are not eligible for paid time-off benefits. The number of maximum paid days ranges from 15 to 30 days depending on the number of years of service with the Organization and the number of hours worked per week. Paid time-off not taken rolls over from one year to the next up to a maximum of not more than 1.5 times the employee's annual days of paid time-off. Once the maximum number of paid time-off days is earned, employees stop accruing until the balance of earned paid time-off is reduced by taking time-off or may be cashed out according to plan restrictions. Upon separation of employment, all accrued paid time-off hours will be paid in the employee's final paycheck in accordance with applicable state and federal laws. At June 30, 2022 and 2021, accrued paid time-off totaled \$289,255 and \$287,841, respectively.

NOTE 9: LINE OF CREDIT

The Organization has available a line of credit with a financial institution for \$300,000. The line of credit was obtained on February 5, 2010 and renews automatically under terms of the agreement. As of November 26, 2012, the terms were updated as follows: borrowings under the line of credit bear interest at 1.25 percentage points over the bank's prime rate, but no less than 4.00% per annum. All borrowings are secured by the Organization's assets. As of June 30, 2022 and 2021, there was no outstanding balance.

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS June 30, 2022 and 2021

NOTE 10: NOTES PAYABLE

The Organization obtained permanent financing on its building with a note payable to a financial institution of \$6,000,000. The note was a 25-year fully-amortizing loan bearing interest at a fixed rate of 4.411% with monthly principal and interest payments of \$33,258 beginning February 1, 2009 and maturing January 1, 2034. The loan was secured by the Organization's facility. At June 30, 2021, the outstanding balance on the note was \$3,833,764.

Effective September 16, 2021, the Organization refinanced the note on its building. The new loan in the amount of \$3,776,990 is a 10-year fully-amortizing loan bearing interest at a fixed rate of 3.4%, with monthly principal and interest payments of \$37,312. The first payment is due on November 1, 2021 and the loan matures on October 1, 2031. The loan is secured by the Organization's facility. As part of the agreement, the Organization shall maintain a minimum liquidity at all times of not less than \$1,000,000. At June 30, 2022, the outstanding balance on the note totaled \$3,564,087, which is net of unamortized debt issuance costs of \$4,325.

The Organization obtained financing for a portion of the cost related to installing energy efficient LED lighting with a note payable to PG&E for \$5,017. The note is a 38-month, 0% loan with monthly payments of \$132 beginning November 2018 and matures December 2021. At June 30, 2021, the outstanding balance on the note totaled \$792. The loan was paid in full during 2022.

The Organization obtained financing for a portion of the cost related to installing energy efficient LED lighting with a note payable to PG&E for \$6,348. The note is a 5-year, 0% loan with monthly payments of \$106 beginning November 2018 and matures October 2023. At June 30, 2021, the outstanding balance on the note totaled \$2,962. The loan was paid in full during 2022.

The maturities of the notes payable for the next five years and thereafter are as follows:

Year Ending June 30:

2023	\$	329,901
2024		341,167
2025		353,403
2026		365,780
2027		378,590
Thereafter		<u>1,799,571</u>
Total	\$	<u><u>3,568,412</u></u>

NOTE 11: CONTRIBUTIONS

Contributions are comprised of the following at June 30:

	<u>2022</u>	<u>2021</u>
Community donations	\$ 183,517	\$ 135,292
Bequests	958,336	526,050
Friends of Hospice	140,980	136,270
Memorial donations	120,713	99,085
Other	<u>247</u>	<u>-</u>
	<u><u>\$ 1,403,793</u></u>	<u><u>\$ 896,697</u></u>

HOSPICE OF THE FOOTHILLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 12: OPERATING LEASE OBLIGATIONS

The Organization is currently obligated for its thrift store space under separate lease agreements and holds several equipment leases. The lease obligations are as follows:

Grass Valley Thrift Store

This lease began on November 1, 2021 and extends through May 31, 2025. The lease calls for initial regular monthly payments of \$11,500. Base rent adjusts annually by 2.5% each November 1st for the term of the lease. The lease term provides for the option to extend for two five-year terms.

Nevada City Thrift Store

This lease began on September 1, 1997, was renewed on July 1, 2019 and extends through June 30, 2020. The lease calls for regular monthly payments of \$6,400. In July 2020, the lease was renewed for one additional year and called for \$6,600 regular monthly payments. In June 2021, the lease was extended on a month-to-month basis. Occupancy was terminated in January 2022.

Rough and Ready Warehouse

This lease was renewed on July 1, 2018 and extends through July 1, 2021. The lease calls for initial regular monthly payments of \$4,575. Base rent adjusts annually by 3% each July 1st for the term of the lease. Retail sales were ended at this location in February 2021 and occupancy was terminated in June 2021.

Penn Valley Thrift Store

This lease was renewed on January 10, 2018 and extends through January 10, 2023. The lease calls for initial regular monthly payments of \$3,500. Base rent adjusts annually each January for the term of the lease. The lease was amended in June 2022. The amended lease calls for regular monthly payments of \$3,000, expiring May 2023. The lease term provides for the option to extend for two three-year terms.

Future minimum lease payments and a reconciliation of undiscounted cash flows under operating lease liabilities are as follows:

<u>Year ending June 30:</u>	
2023	\$ 140,300
2024	143,808
2025	<u>135,018</u>
Total undiscounted cash flows	419,126
Less: discount on lease liabilities	<u>(20,896)</u>
Total operating lease liabilities	<u>398,230</u>
Less: current portion of operating lease	<u>(140,300)</u>
Operating lease liabilities, less current portion	<u><u>\$ 257,930</u></u>

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 12: OPERATING LEASE OBLIGATIONS (CONTINUED)

At June 30, 2022, operating lease right-of-use assets were \$329,613 and operating lease liabilities were \$398,230. Cash payments made on operating lease liabilities totaled \$11,500 for the year ended June 30, 2022. The weighted average remaining lease terms of operating leases was approximately 3 years. The weighted average discount rate used to determine the operating lease liabilities was approximately 3.4%.

Rental expenses under these lease obligations totaled \$204,098 and \$249,153 for the years ended June 30, 2022 and 2021, respectively.

Equipment Operating Leases

The Organization leases various postage, copier and credit card processing machines which extend through October 2024. Equipment rental expenses under these obligations totaled \$10,069 and \$9,543 for the years ended June 30, 2022 and 2021, respectively.

Future minimum lease payments under equipment operating leases were approximately \$8,300 for each of the next two years.

NOTE 13: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the Organization's Endowment fund, and results from donations received from donors who have specified that their contribution be kept in perpetuity, and the earnings there upon be used by the Organization in support of its ongoing activities. At June 30, 2022 and 2021, net assets with donor restrictions totaled \$815,942, which is composed of the original value of the gifts donated to the permanent endowment.

NOTE 14: ENDOWMENTS

Net assets with donor restrictions associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. In accordance with the Organization's spending policy, annually, the Board of Directors appropriates for expenditures all investment income, including interest, dividends, and net appreciation (depreciation). Funds that are appropriated for expenditure but not immediately expended convert to Board Designated Endowment funds. The Board Designated Endowment funds are classified and reported as net assets without donor restrictions and are available for unrestricted expenditure at any time.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original donor's gift, as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of the 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 applicable donor gift instrument at the time the accumulation is added to the funds.

The remaining portion of endowment funds continue to be classified as net assets subject to donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of Hospice of the Foothills 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 of Hospice of the Foothills, and (7) the investment policies of Hospice of the Foothills.

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 14: ENDOWMENTS (CONTINUED)

The Organization has adopted investment and spending policies approved by the Board of Directors for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets over the long term. To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. In establishing this spending policy, the long-term expected return on the related endowment funds has been considered. Accordingly, over the long term, the Organization expects the current spending policies to allow the endowment funds to be appropriately maintained.

Changes in the endowment net assets as of June 30, 2022 and 2021 are shown as follows:

	Without Donor Restrictions	With Donor Restrictions	Endowment Total
Net assets, June 30, 2020	\$ 389,740	\$ 815,942	\$ 1,205,682
Investment return:			
Investment income	-	43,773	43,773
Net appreciation (realized and unrealized)	-	179,408	179,408
Expenditures	-	(5,751)	(5,751)
Appropriated - released from restriction	217,430	(217,430)	-
Net assets, June 30, 2021	607,170	815,942	1,423,112
Investment return:			
Investment income	-	32,547	32,547
Net depreciation (realized and unrealized)	(190,717)	-	(190,717)
Expenditures	-	(6,243)	(6,243)
Appropriated - released from restriction	26,304	(26,304)	-
Net assets, June 30, 2022	<u>\$ 442,757</u>	<u>\$ 815,942</u>	<u>\$ 1,258,699</u>

NOTE 15: RENTAL INCOME

The Organization leases a portion of its facility for pediatric health and respite services. The current lease commenced in February 2016 and extends through January 2023. The lease calls for initial regular monthly rent payments of \$7,000. Beginning February 1, 2019, monthly rent payments were \$7,500 with a 1.5% increase in 2020 and a 2.5% increase in 2021. Future minimum rental income for the next year is approximately \$54,000.

NOTE 16: FUNDRAISING COSTS

For the fiscal year ended June 30, 2022, fundraising costs of \$1,465,929 reported on the statement of activities includes \$1,066,636 of direct costs of operating the three thrift stores. In November and December 2021, two of the thrift stores were closed and a larger, combined store was opened in February 2022 in a new location. The remaining amount of \$399,293 are direct fundraising and marketing costs. For the fiscal year ended June 30, 2021, fundraising costs of \$1,578,291 reported on the statement of activities includes \$1,194,665 of direct costs of operating the four thrift stores. The remaining amount of \$383,626 are direct fundraising and marketing costs.

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS June 30, 2022 and 2021

NOTE 17: COST REPORT

A comprehensive report detailing all Organization costs is required to be submitted to the Centers for Medicare and Medicaid Services (CMS) by November 30, 2022. All Medicare reimbursement funds applied for after that date can be held by the governmental agencies pending the review and approval of the report.

NOTE 18: EMPLOYEE RETIREMENT PLAN

The Organization has established a SIMPLE IRA plan to provide retirement benefits for its employees. Employees may elect to contribute to their retirement by deductions from their payroll and the Organization will match their contributions up to a maximum of 3% of the employee's gross income. Employees are eligible for the retirement contribution match on the first day of the month after 30 consecutive days of employment as a regular employee. For the years ended June 30, 2022 and 2021, retirement plan contributions totaled \$93,263 and \$96,241, respectively.

NOTE 19: RELATED PARTY TRANSACTIONS

Certain board members were employed by financial institutions that provide investment and investment advisory services to the Organization. No direct fees were paid by the Organization to the board members for performing these services. As of September 30, 2021, these financial advisors were no longer on the Organization's board.

NOTE 20: CONCENTRATIONS AND CONTINGENCIES

During the 2022 and 2021 fiscal years, the Organization received approximately 68% and 69%, respectively, of its revenue and support from Medicare and Medi-Cal reimbursements. Additionally, associated Medicare and Medi-Cal accounts receivable is approximately 91% and 90% of total accounts receivable at June 30, 2022 and 2021, respectively. In addition, the Organization is currently subject to an ongoing 2% federal sequestration on Medicare reimbursements. The 2% sequestration on Medicare reimbursements was suspended by the CARES Act for claims relating to services delivered for the period of May 1, 2020 through December 31, 2021. The suspension was subsequently extended to an end date of March 31, 2022. From April 2022 through June 2022, a 1% sequestration was in effect, with the full 2% resuming thereafter. The Organization is also exposed to potential future Medicare rate reductions and the unknown consequences of the Affordable Care Act.

The Organization maintains its cash and cash equivalents in multiple bank deposit accounts which, at times, may exceed the \$250,000 per depositor Federal Deposit Insurance Corporation insured limits. Total uninsured cash balances at June 30, 2022 and 2021 were \$3,059,609 and \$3,872,864, respectively. The Organization has not experienced any losses on these accounts and management believes the Organization is not exposed to any significant risk on cash accounts.

For those investments held by a broker who is a member of the Securities Investor Protection Corporation, the cash and securities are insured up to \$500,000 in the event the brokerage firm goes out of business.

HOSPICE OF THE FOOTHILLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 20: CONCENTRATIONS AND CONTINGENCIES (CONTINUED)

During 2020, the COVID-19 outbreak in the United States caused business disruption through mandated and voluntary closings of all businesses that were non-essential per the government's definitions. Due to these mandates, retail operations were affected in 2021 by varying capacity and other restrictions and mandates. Throughout 2021 and 2022, as the pandemic continued, the Organization experienced a wide fluctuation in patient census levels, continuing strong donor support, reduced gift and thrift revenues and increased expenses related to the pandemic, which were largely reimbursed by governmental relief programs. The Organization expects continuing effects on operations due to the COVID-19 pandemic. The related financial impact cannot be readily determined at this time.

NOTE 21: COVID RELIEF FUNDS

In April 2020, the Organization was granted \$339,659 in healthcare provider relief funds as part of the CARES Act. These funds were required to be used to prevent, prepare for, and respond to coronavirus and covers healthcare-related expenses or lost revenues that were attributable to coronavirus. As of June 30, 2021, the balance of the funds had been utilized and recognized as revenue.

In December 2021, the Organization was granted \$353,896 in healthcare provider relief funds as part of the American Rescue Plan (ARP). These funds are required to be used to prevent, prepare for, and respond to coronavirus and cover healthcare-related expenses or lost revenues that are attributable to coronavirus. As of June 30, 2022, the Organization recognized \$176,084 in the statement of activities and recorded the remaining \$177,812 in deferred revenues. Under the current provisions of the grant, the period of availability of \$212,935 of the funds ends on December 31, 2022. The remaining \$140,961 must be utilized by June 30, 2023. Any unused funds remaining at the close of each spending period are required to be refunded to the grantor.