

**THE ELIZABETH HOSPICE, INC.**  
Escondido, California

**FINANCIAL STATEMENTS**  
June 30, 2019 and 2018

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
The Elizabeth Hospice, Inc.  
Escondido, California

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

We have audited the accompanying financial statements of The Elizabeth Hospice, Inc., which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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(Continued)

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Elizabeth Hospice, Inc. as of June 30, 2019 and 2018, 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.

## Emphasis of Matter

As discussed in Note 1 to the financial statements, The Elizabeth Hospice, Inc. has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

*Crowe LLP*  
Crowe LLP

South Bend, Indiana  
October 3, 2019

THE ELIZABETH HOSPICE, INC.  
BALANCE SHEETS  
June 30, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 598,372	\$ 1,643,420
Patient accounts receivable, net	4,459,744	4,446,909
Prepaid expenses and other	646,891	503,538
Note receivable	<u>15,376</u>	<u>-</u>
Total current assets	5,720,383	6,593,867
Property and equipment, net	3,223,111	3,422,569
Investments	<u>20,252,936</u>	<u>17,598,323</u>
	<u>\$ 29,196,430</u>	<u>\$ 27,614,759</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 1,047,010	\$ 598,070
Accrued expenses	<u>3,893,217</u>	<u>3,719,640</u>
Total current liabilities	4,940,227	4,317,710
Net assets		
Without donor restrictions		
Undesignated	8,079,100	9,013,652
Board designated	<u>8,530,559</u>	<u>6,436,350</u>
Total net assets without donor restrictions	16,609,659	15,450,002
With donor restrictions	<u>7,646,544</u>	<u>7,847,047</u>
Total net assets	<u>24,256,203</u>	<u>23,297,049</u>
	<u>\$ 29,196,430</u>	<u>\$ 27,614,759</u>

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See accompanying notes to financial statements.

THE ELIZABETH HOSPICE, INC.  
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Net assets without donor restrictions</b>		
Operating revenue		
Net patient service revenue	\$ 36,954,361	\$ 37,157,470
Contributions and fundraising	2,686,316	2,156,333
Special events	140,227	101,013
Interest and dividends, net of fees	128,161	145,342
Realized gains on investments	202,057	295,539
Other revenue	498,545	348,137
Net assets released from restriction	<u>559,890</u>	<u>189,678</u>
Total operating revenue	41,169,557	40,393,512
Operating expenses		
Direct patient care	19,931,527	21,475,636
Indirect patient care	9,750,234	9,396,151
Community outreach	2,330,272	1,671,276
Management and general	7,285,105	7,043,392
Fundraising	<u>882,194</u>	<u>735,836</u>
Total operating expenses	<u>40,179,332</u>	<u>40,322,291</u>
Change in net assets without donor restrictions from operations	990,225	71,221
Nonoperating revenues		
Unrealized gains on investments	<u>169,432</u>	<u>297,030</u>
Change in net assets without donor restrictions	1,159,657	368,251
<b>Net assets with donor restrictions</b>		
Contributions	5,000	4,712,597
Interest and dividends, net of fees	114,296	77,198
Net realized and unrealized gains on investments	240,091	188,089
Net assets released from restriction	<u>(559,890)</u>	<u>(189,678)</u>
Change in net assets with donor restrictions	<u>(200,503)</u>	<u>4,788,206</u>
<b>Change in net assets</b>	959,154	5,156,457
Net assets at beginning of year	<u>23,297,049</u>	<u>18,140,592</u>
<b>Net assets at end of year</b>	<u>\$ 24,256,203</u>	<u>\$ 23,297,049</u>

See accompanying notes to financial statements.

THE ELIZABETH HOSPICE, INC.  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 959,154	\$ 5,156,457
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	361,784	376,396
Loss on disposal of property and equipment	-	10,933
Provision for uncollectible accounts	128,027	71,663
Net realized and unrealized gains on investments	(611,580)	(780,658)
Restricted contributions	-	(4,447,998)
Changes in assets and liabilities		
Patient accounts receivable	(140,862)	(996,405)
Prepaid expenses and other	(143,353)	(85,292)
Accounts payable	448,940	(349,718)
Accrued expenses	<u>173,577</u>	<u>1,239,031</u>
Net cash from operating activities	<u>1,175,687</u>	<u>194,409</u>
<b>Cash flows from investing activities</b>		
Advances made to Elizabeth Supportive Medical Services	(35,000)	(80,000)
Repayments on advances to Elizabeth Supportive Medical Services	19,624	80,000
Purchase of property and equipment	(162,326)	(491,727)
Proceeds from sales of investments	5,423,386	12,135,512
Purchases of investments	<u>(7,466,419)</u>	<u>(18,090,562)</u>
Net cash from investing activities	<u>(2,220,735)</u>	<u>(6,446,777)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings on line of credit	22,459,869	6,200,000
Principal payments on line of credit	(22,459,869)	(6,200,000)
Proceeds from restricted contributions	<u>-</u>	<u>4,447,998</u>
Net cash from financing activities	<u>-</u>	<u>4,447,998</u>
Net change in cash and cash equivalents	(1,045,048)	(1,804,370)
Cash and cash equivalents at beginning of year	<u>1,643,420</u>	<u>3,447,790</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 598,372</u></u>	<u><u>\$ 1,643,420</u></u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest during the year	\$ 48,646	\$ 4,586

See accompanying notes to financial statements.

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization: The Elizabeth Hospice, Inc. (the "Organization") is organized under the charitable public benefit nonprofit corporate laws of the state of California. The Organization's primary purposes are to provide end-of-life care services to terminally ill patients, contribute to the sense of well-being of terminally ill patients and their families, and to train professionals and volunteers in the hospice concept. Effective April 12, 2019, California Hospice Network was formed to become the parent holding company for the Organization, Hospice of Santa Cruz County, and Mission Hospice & Home Care to commit to sustaining local, nonprofit, community-based hospice care throughout California. As of June 30, 2019, the process of California Hospice Network to become the parent of the Organization, Hospice of Santa Cruz County, and Mission Hospice & Home Care is still ongoing, and thus any accounting implications are not reflected in these financial statements.

Since August 2017, through a management service agreement (MSA), the Organization partners with Elizabeth Supportive Medical Services ("ESMS"), an aligned physician medical group, that allows for expansion of reimbursable services provided by the Organization. Revenue from this agreement for the years ended June 30, 2019 and 2018 was \$159,118 and \$256,028, respectively, and is included in other revenue in the statements of operations and changes in net assets. As part of the agreement, the Organization provides a line of credit to ESMS with an available principal amount of up to \$750,000, with interest at the current prime rate and secured by the assets of ESMS. The line of credit expires in July 2027. ESMS had borrowings outstanding on the line of credit at June 30, 2019 of \$15,376. ESMS had no borrowings outstanding on the line of credit at June 30, 2018.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation: The financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as without donor restrictions or with donor restrictions and are detailed as follows:

Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. Net assets without donor restrictions are comprised of Board designated and undesignated amounts. As of June 30, 2019 and 2018, board designated net assets consist of \$8,530,559 and \$6,436,350, respectively, designated for an endowment created during the year ended June 30, 2017.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature and will be met by the passage of time or the actions of the Organization. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2019 and 2018, purpose or time restricted net assets consisted of donor restricted funds designated for various programs and unspent endowment earnings.

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(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$250,000. Additionally, for purposes of the statements of cash flows, the Organization considers all highly liquid investments of operating cash purchased with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable: The patient accounts receivable balance represents the unpaid amounts billed to patients and third-party payors. Contractual adjustments, discounts, and an allowance for uncollectible accounts are recorded to report receivables for patient care services at their net realizable value. Past due receivables are determined based on contractual terms. The Organization does not accrue interest on any of its accounts receivables.

Allowance for Uncollectible Accounts: The allowance for uncollectible accounts is determined by management based upon the Organization's historical losses, specific patient circumstances, and general economic conditions. Periodically, management reviews patient accounts receivable and records an allowance based on current circumstances, and charges off the receivable against the allowance when all attempts to collect the receivable are deemed to have failed in accordance with the internal collection policy. Management believes the allowances of approximately \$278,316 and \$270,678 as of June 30, 2019 and 2018, respectively, are adequate to cover potential losses from uncollectible accounts.

Investments: All investments are valued at their fair values in the balance sheets. Unrealized gains and losses are included in the change in net assets. See Note 4 for additional information on the nature of the Organization's investments.

Property and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at their fair value on the date of the gift. Additions and improvements over \$2,000 are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is computed over the estimated useful lives of the various classes of assets using the straight-line method.

Gifts of long-lived assets such as land, buildings, and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets: On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of June 30, 2019 and 2018, management believes that no assets were impaired.

Net Patient Service Revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. For the years ended June 30, 2019 and 2018, approximately 96% and 97%, respectively, of the Organization's net patient service revenue was derived from the Medicare and Medicaid programs.

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(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Provisions for estimated third-party payor settlements have been made in the financial statements for estimated contractual adjustments, representing the difference between the standard charges for services and estimated total payments to be received from third-party payors. These estimates are adjusted in future periods as final settlements are determined.

The Organization, like other health care providers, may be subject to investigations, regulatory action, lawsuits, and claims arising out of the conduct of its business, including the interpretation of laws and regulations governing the Medicare and Medicaid programs and other third-party payor agreements. Management intends to fully cooperate with any governmental agencies in requests for information. Noncompliance with laws and regulations can make the Organization subject to regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Hospice organizations are subject to two specific payment limit caps under the Medicare program. One limit relates to inpatient care days that exceed 20% of the total days of hospice care provided for the year. The second limit relates to an aggregate Medicare reimbursement cap amount. The Organization did not exceed either of the Medicare cap limitations for the years ended June 30, 2019 and 2018.

Charity Care: The Organization determines each patient's ability to pay during the admission process. When a patient meets certain criteria, part or all of the patient's charges are deemed charity care and are not billed for collection. Because the Organization does not pursue collection of amounts determined to qualify as charity care, those amounts are excluded from net patient service revenue. The cost of charity care provided was approximately \$362,000 and \$375,000 for the years ended June 30, 2019 and 2018, respectively. This cost estimate was based on the Organization-wide cost to charge ratio.

Contributions: Contributions received and unconditional promises to give are recorded as revenue without donor restrictions or revenue with donor restrictions depending on the existence of donor restrictions and the nature of such restrictions, if they exist.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations and changes in net assets as net assets released from restriction.

If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as without donor restrictions.

Functional Allocation of Expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of operations and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Change in Net Assets Without Donor Restrictions from Operations: The statements of operations and changes in net assets include changes in net assets without donor restrictions from operations. Changes in net assets without donor restrictions which are excluded from changes in net assets without donor restrictions from operations, consistent with industry practice, include unrealized gains on investments.

Income Taxes: The Organization is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

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(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

U.S. GAAP requires that a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Organization's Form 990 has not been subject to examination by the Internal Revenue Service or the state of California for the last three years. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Organization recognizes interest and/or penalties related to income tax matters in income tax expense. The Organization did not have any amounts accrued for interest and penalties at June 30, 2019 and 2018.

Recently Adopted Accounting Pronouncement: In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* (ASU). The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses, and investment return. The Organization has adopted the ASU and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity disclosure, as permitted.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on total net assets or the change in net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2019 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2019. Management performed their analysis through October 3, 2019, which is the date the financial statements were available to be issued.

**NOTE 2 - LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2019</u>
Cash and cash equivalents	\$ 598,372
Patient accounts receivable, net	4,459,744
Note receivable	15,376
Investments	<u>20,252,936</u>
	25,326,428
Less net assets with donor restrictions	<u>(7,646,544)</u>
	<u>\$ 17,679,884</u>

As part of the Organization's liquidity management plan, management invests cash in excess of daily requirements in short-term investments, treasury sweeps, and money market instruments. In addition to cash on hand, the Organization has two lines of credit available in the amount of \$2,500,000 and \$1,000,000; the latter secured by unrestricted investments.

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(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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**NOTE 2 - LIQUIDITY AND AVAILABILITY (Continued)**

The Organization also manages a pool of funds invested in the public securities markets. Management of these funds are governed by the Organization's Investment Policy Statement. The Board of Directors has delegated authority to supervise these investments to the Finance Committee. The Organization's primary objective is to preserve and protect its assets by earning a total return for each category of assets (a "Fund"), which is appropriate for each Fund's time horizon, distribution requirements, and risk tolerance. The Organization currently maintains the following funds:

- Intermediate Fund
- Long Term Fund
- Endowment Fund
- Board Directed Endowment
- Anonymous Endowment

The Intermediate and Long Term Fund are unrestricted and have a value of \$4,203,833 as of June 30, 2019. The Endowment Fund, Board Directed Endowment, and Anonymous Endowment are Board designated and donor restricted with a value of \$16,049,103 as of June 30, 2019.

**NOTE 3 - PATIENT ACCOUNTS RECEIVABLE**

Receivables from patients and third-party payors for the years ended June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 3,090,430	\$ 3,264,317
Medicaid	1,202,007	1,115,118
Commercial and other	<u>445,623</u>	<u>338,152</u>
	4,738,060	4,717,587
Less allowance for uncollectible accounts	<u>(278,316)</u>	<u>(270,678)</u>
	<u>\$ 4,459,744</u>	<u>\$ 4,446,909</u>

**NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date. The fair values of money market funds, common stocks, exchange traded funds, mutual funds, and hedge funds that are readily marketable are determined by obtaining quoted prices from nationally recognized securities exchanges.

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(Continued)

THE ELIZABETH HOSPICE, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2019 and 2018

**NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

(Continued)

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Organization had no investments measured using Level 2 inputs at June 30, 2019 and 2018.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The Organization had no investments measured using Level 3 inputs at June 30, 2019 and 2018.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Assets measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at June 30, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market funds	\$ 1,139,537	\$ -	\$ -	\$ 1,139,537
Common stocks	3,593,073	-	-	3,593,073
Exchange traded funds	7,484,452	-	-	7,484,452
Equity mutual funds	1,404,286	-	-	1,404,286
Fixed income mutual funds	5,725,468	-	-	5,725,468
Hedge funds	<u>906,120</u>	<u>-</u>	<u>-</u>	<u>906,120</u>
Total investments	<u>\$ 20,252,936</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,252,936</u>

	<u>Fair Value Measurements at June 30, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market funds	\$ 1,039,683	\$ -	\$ -	\$ 1,039,683
Common stocks	2,775,834	-	-	2,775,834
Exchange traded funds	6,696,120	-	-	6,696,120
Equity mutual funds	1,759,351	-	-	1,759,351
Fixed income mutual funds	4,446,152	-	-	4,446,152
Hedge funds	<u>881,183</u>	<u>-</u>	<u>-</u>	<u>881,183</u>
Total investments	<u>\$ 17,598,323</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,598,323</u>

The following schedule summarizes return on investments for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Interest and dividends, net of fees	\$ 242,457	\$ 222,540
Realized gains on investments	<u>268,799</u>	<u>371,303</u>
	511,256	593,843
Unrealized gains on investments	<u>342,781</u>	<u>409,355</u>
	<u>\$ 854,037</u>	<u>\$ 1,003,198</u>

(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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**NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

(Continued)

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization.

**NOTE 5 - PROPERTY AND EQUIPMENT**

The Organization's property and equipment and the related accumulated depreciation at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 879,235	\$ 879,235
Buildings	2,933,434	2,861,960
Office equipment	1,350,402	1,754,686
Furniture and fixtures	<u>557,898</u>	<u>555,477</u>
	5,720,969	6,051,358
Less accumulated depreciation	<u>(2,497,858)</u>	<u>(2,628,789)</u>
	<u>\$ 3,223,111</u>	<u>\$ 3,422,569</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$361,784 and \$376,396, respectively.

**NOTE 6 - LINES OF CREDIT**

The Organization maintained a \$1,500,000 line of credit with a financial institution bearing interest at the prime rate plus 1% (5% as of June 30, 2018). The line of credit was secured by cash, investments, and other assets of the Organization and expired in December 2018. The Organization had no borrowings outstanding on the line of credit at June 30, 2018.

The Organization maintains a \$1,000,000 line of credit with a financial institution bearing interest at LIBOR plus 1.75% (4.12% and 3.84% as of June 30, 2019 and 2018, respectively). The line of credit is secured by cash, investments, and other assets of the Organization and expires in May 2021. The Organization had no borrowings outstanding on the line of credit at June 30, 2019 or 2018.

In November 2018 the Organization obtained a \$2,500,000 line of credit with a financial institution bearing interest at LIBOR plus 2.50% (4.87% as of June 30, 2019). The line of credit is secured by equipment and fixtures, inventory, and receivables of the Organization and expires in December 2019. The Organization had no borrowings outstanding on the line of credit at June 30, 2019.

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(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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**NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets that are donor restricted at June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Time or purpose		
Unappropriated endowment earnings	\$ 490,219	\$ 512,893
Staff education	120,000	120,000
Other	<u>8,000</u>	<u>185,829</u>
	618,219	818,722
Perpetually restricted		
Endowments for education	1,700,000	1,700,000
Endowments for charity care	1,804,000	1,804,000
Endowments for hospice and palliative care	2,643,998	2,643,998
Endowments for undesignated purposes	<u>880,327</u>	<u>880,327</u>
	<u>7,028,325</u>	<u>7,028,325</u>
	 <u>\$ 7,646,544</u>	 <u>\$ 7,847,047</u>

Net assets with donor restrictions were released from restriction for the years ended June 30 for the following purposes:

	<u>2019</u>	<u>2018</u>
Building fund - Canterbury	\$ -	\$ 30,109
Unappropriated endowment earnings	377,061	92,211
Other	<u>182,829</u>	<u>67,358</u>
	 <u>\$ 559,890</u>	 <u>\$ 189,678</u>

**NOTE 8 - ENDOWMENT ASSETS**

Overview: The Organization's endowments consist of various investment securities, most of which are traded on public markets. The endowments are made up of board designated, purpose or time restricted, and perpetually restricted assets. As required by U.S. GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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(Continued)

**NOTE 8 - ENDOWMENT ASSETS (Continued)**

Interpretation of Relevant Law: The Organization's Board of Directors has determined the requirements of California's version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") to center around the preservation of the fair value of the original investment as of the date of the asset transfer. The investments resulting from donations directing that they be invested in perpetuity are classified as perpetually restricted. The earnings generated by these investments are classified as purpose or time restricted. The purpose or time restricted earnings are reclassified as without donor restrictions upon their appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by California's version of UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate its endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization 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 the Organization
- (7) The investment policies of the Organization

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide funding for operating expenses of programs supported by its endowments, while maintaining the original corpus of the endowments. In order to meet this objective, the endowment asset portfolio is structured to achieve a compound annual return, net of investment management expenses, of 4% to 6% for the Intermediate Fund portfolio and 6% to 8% for the Long-Term, Endowment, and Board Directed funds. Risk parameters are set so that reasonable volatility, including larger potential fluctuations of principal, will be tolerated over the investment horizon, in as much as it is consistent with the volatility of a comparable market index. Endowment assets include assets of donor-restricted funds that the Organization must hold in perpetuity and assets of the Organization that the Board of Directors has designated for endowment purposes.

Strategies Employed for Achieving Objectives: 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 broadly diversified portfolio to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Organization disburses funds as needed within the guidelines of the endowments. Over the long-term, the Organization expects the current spending policy to allow its endowment to grow at the average annual rate of inflation over ten years. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Fund with Deficiencies: A donor-restricted endowment fund is considered to be underwater if the fair value of the fund is less than the original gift amount or the amount required to be maintained by the donor or by law. At times, the Organization may have individual donor-restricted endowment funds that are underwater. The Organization has a policy that permits spending from underwater funds depending on the degree to which the fund is underwater, unless specifically prohibited by the donor or relevant laws and regulations. There were no such deficiencies as of June 30, 2019 and 2018.

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(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

**NOTE 8 - ENDOWMENT ASSETS (Continued)**

Change in Endowment Net Assets: The Organization's change in endowment assets, by net asset composition, for the years ended June 30 is as follows:

2019:

	<u>Without Donor Restrictions</u> Board <u>Designated</u>	<u>With Donor Restrictions</u> Accumulated <u>Earnings</u>	<u>Original Gift</u>	<u>Total</u>
Beginning balance	\$ 6,436,350	\$ 512,893	\$ 7,028,325	\$ 13,977,568
Interest and dividends, net of fees	107,632	114,296	-	221,928
Net realized and unrealized gains	240,079	240,091	-	480,170
Additions	1,746,498	-	-	1,746,498
Appropriations for expenditure	<u>-</u>	<u>(377,061)</u>	<u>-</u>	<u>(377,061)</u>
Total endowment	<u>\$ 8,530,559</u>	<u>\$ 490,219</u>	<u>\$ 7,028,325</u>	<u>\$ 16,049,103</u>

2018:

	<u>Without Donor Restrictions</u> Board <u>Designated</u>	<u>With Donor Restrictions</u> Accumulated <u>Earnings</u>	<u>Original Gift</u>	<u>Total</u>
Beginning balance	\$ 4,663,087	\$ 339,817	\$ 2,580,327	\$ 7,583,231
Interest and dividends, net of fees	85,269	77,198	-	162,467
Net realized and unrealized gains	390,617	188,089	-	578,706
Additions	1,297,377	-	4,447,998	5,745,375
Appropriations for expenditure	<u>-</u>	<u>(92,211)</u>	<u>-</u>	<u>(92,211)</u>
Total endowment	<u>\$ 6,436,350</u>	<u>\$ 512,893</u>	<u>\$ 7,028,325</u>	<u>\$ 13,977,568</u>

**NOTE 9 - OPERATING LEASE COMMITMENTS**

The Organization has various operating leases for office spaces and vehicles that expire on various dates through October 2023. Total rent expense amounted to \$1,236,619 and \$1,227,389 for the years ended June 30, 2019 and 2018, respectively. Future minimum lease commitments are as follows:

2020	\$ 1,216,659
2021	1,251,652
2022	1,197,308
2023	771,368
2024	<u>59,487</u>
	<u>\$ 4,496,474</u>

(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

**NOTE 10 - FUNCTIONAL EXPENSES**

Expenses categorized by their functional classification for the years ended June 30 are as follows:

For the year ended June 30, 2019

	<u>Direct patient care</u>	<u>Indirect patient care</u>	<u>Community outreach</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Accounting fees	\$ -	\$ -	\$ -	\$ 47,414	\$ -	\$ 47,414
Advertising and promo	-	623	54,908	75,316	39,008	169,855
Bad debt	128,027	-	-	-	-	128,027
Benefits	772,481	207,656	66,450	157,819	24,919	1,229,325
Conferences, meetings	680	41,167	107,497	113,308	25,800	288,452
Depreciation	207,876	80,294	17,896	35,979	19,739	361,784
DME	1,360,798	-	-	-	-	1,360,798
Drugs	1,064,977	-	-	-	-	1,064,977
Facility related	1,022,236	394,848	88,006	176,926	97,066	1,779,082
Fee for service other	894,012	344,383	302,180	568,512	240	2,109,327
Information technology	308,461	103,021	26,534	133,797	28,716	600,529
Inpatient services	42,124	-	-	-	-	42,124
Insurance	-	908	-	210,901	-	211,809
Legal expenses	-	67,604	-	140,076	5,384	213,064
Medical supplies	799,886	1,664	78	-	-	801,628
Office expenses	96,359	50,110	24,338	100,315	13,214	284,336
Other employee benefits	1,265,029	685,450	188,877	421,599	47,118	2,608,073
Other expenses	5,893	2,436	531	17,043	3,500	29,403
Other patient expenses	197,147	-	-	-	722	197,869
Other salaries and wages	10,162,665	7,037,616	1,296,675	4,491,709	523,611	23,512,276
Payroll processing fees	-	-	-	60,783	-	60,783
Payroll taxes	749,555	506,828	93,883	302,531	37,786	1,690,583
Pension plan accruals	189,932	136,442	25,761	89,588	12,300	454,023
Transportation	42,929	-	-	-	-	42,929
Travel expenses	<u>620,460</u>	<u>89,184</u>	<u>36,658</u>	<u>141,489</u>	<u>3,071</u>	<u>890,862</u>
	<u>\$19,931,527</u>	<u>\$ 9,750,234</u>	<u>\$ 2,330,272</u>	<u>\$ 7,285,105</u>	<u>\$ 882,194</u>	<u>\$40,179,332</u>

(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

**NOTE 10 - FUNCTIONAL EXPENSES (Continued)**

For the year ended June 30, 2018

	<u>Direct patient care</u>	<u>Indirect patient care</u>	<u>Community outreach</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Accounting fees	\$ -	\$ -	\$ -	\$ 49,485	\$ -	\$ 49,485
Advertising and promo	-	134	22,673	114,393	7,401	144,601
Bad debt	71,663	-	-	-	-	71,663
Benefits	461,495	204,268	45,393	156,354	15,131	882,641
Conferences, meetings	-	75,370	34,611	143,405	29,047	282,433
Depreciation	218,778	87,933	19,599	39,402	21,617	387,329
DME	1,187,868	-	-	-	-	1,187,868
Drugs	1,101,425	-	-	-	-	1,101,425
Facility related	939,851	377,754	84,196	169,266	92,863	1,663,930
Fee for service other	728,983	1,011,583	368,876	189,976	-	2,299,418
Information technology	237,577	124,675	42,596	193,006	26,397	624,251
Inpatient services	72,326	-	-	-	-	72,326
Insurance	-	242	-	179,977	-	180,219
Legal expenses	-	13,023	3,286	190,062	14,536	220,907
Medical supplies	789,562	8,306	69	-	-	797,937
Office expenses	133,688	35,379	22,955	195,903	16,357	404,282
Other employee benefits	1,423,065	731,489	115,161	491,783	27,841	2,789,339
Other expenses	8,731	17,346	3,156	60,906	530	90,669
Other patient expenses	197,646	-	-	-	1,150	198,796
Other salaries and wages	12,041,130	6,078,896	808,757	4,308,626	439,352	23,676,761
Payroll processing fees	-	-	-	59,397	-	59,397
Payroll taxes	885,542	434,583	59,158	284,389	31,815	1,695,487
Pension plsn accruals	235,184	118,838	13,868	76,209	9,112	453,211
Transportation	50,699	-	-	-	-	50,699
Travel expenses	<u>690,423</u>	<u>76,332</u>	<u>26,922</u>	<u>140,853</u>	<u>2,687</u>	<u>937,217</u>
	<u>\$21,475,636</u>	<u>\$9,396,151</u>	<u>\$1,671,276</u>	<u>\$7,043,392</u>	<u>\$735,836</u>	<u>\$40,322,291</u>

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facility related and depreciation which are allocated on a square-footage basis, as well as benefits and information technology which are allocated on a number of employees basis.

(Continued)

THE ELIZABETH HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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**NOTE 11 - RETIREMENT PLAN**

The Organization maintains a qualified deferred compensation 401(k) plan for full time employees over age 21 that have completed one month of service. Under the plan, employees may elect to defer up to a percentage of pretax annual compensation, subject to the Internal Revenue Service limits. The Organization matches 50% of the participant's contribution to the Plan, not to exceed six percent of the participant's gross compensation. The Organization contributed \$454,023 and \$502,372 for the years ended June 30, 2019 and 2018, respectively.