THE ELIZABETH HOSPICE, INC.
Escondido, California

FINANCIAL STATEMENTS
June 30, 2020 and 2019

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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, 2020 and 2019, 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.

(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, 2020 and 2019, 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.

Crowe LLP

Crowe LLP

Franklin, Tennessee
September 17, 2020

THE ELIZABETH HOSPICE, INC.
BALANCE SHEETS
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,017,991	$ 598,372
Patient accounts receivable, net	4,789,889	4,459,744
Prepaid expenses and other	1,012,460	646,891
Note receivable	-	15,376
Total current assets	10,820,340	5,720,383
Property and equipment, net	2,959,413	3,223,111
Investments	22,774,729	20,252,936
	$ 36,554,482	$ 29,196,430
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 1,600,707	$ 1,047,010
Accrued expenses	5,079,943	3,893,217
Deferred revenue	2,249,575	-
Total current liabilities	8,930,225	4,940,227
Net assets		
Without donor restrictions		
Undesignated	9,015,893	8,079,100
Board designated	11,083,704	8,530,559
Total net assets without donor restrictions	20,099,597	16,609,659
With donor restrictions	7,524,660	7,646,544
Total net assets	27,624,257	24,256,203
	$ 36,554,482	$ 29,196,430

See accompanying notes to financial statements.

THE ELIZABETH HOSPICE, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended June 30, 2020 and 2019

	2020	2019
Net assets without donor restrictions		
Operating revenue		
Net patient service revenue	$ 36,766,044	$ 36,826,334
Contributions and fundraising	3,160,180	2,686,316
Special events	146,596	140,227
Grants from governmental agencies	170,797	-
Interest and dividends, net of fees	208,844	128,161
Realized gains (loss) on investments	(93,839)	202,057
Other revenue	526,366	498,545
Net assets released from restriction	370,449	559,890
Total operating revenue	41,255,437	41,041,530
Operating expenses		
Direct patient care	21,102,042	19,803,500
Indirect patient care	8,511,227	9,750,234
Community outreach	848,581	2,330,272
Management and general	6,621,275	7,285,105
Fundraising	852,010	882,194
Total operating expenses	37,935,135	40,051,305
Change in net assets without donor restrictions from operations	3,320,302	990,225
Nonoperating revenues		
Unrealized gains on investments	169,636	169,432
Change in net assets without donor restrictions	3,489,938	1,159,657
Net assets with donor restrictions		
Contributions	6,669	5,000
Interest and dividends, net of fees	128,843	114,296
Net realized and unrealized gains on investments	113,053	240,091
Net assets released from restriction	(370,449)	(559,890)
Change in net assets with donor restrictions	(121,884)	(200,503)
Change in net assets	3,368,054	959,154
Net assets at beginning of year	24,256,203	23,297,049
Net assets at end of year	$ 27,624,257	$ 24,256,203

See accompanying notes to financial statements.

THE ELIZABETH HOSPICE, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 3,368,054	$ 959,154
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	332,894	361,784
Loss on disposal of property and equipment	2,883	-
Net realized and unrealized gains on investments	(188,850)	(611,580)
Changes in assets and liabilities		
Patient accounts receivable	(330,145)	(12,835)
Prepaid expenses and other	(365,569)	(143,353)
Accounts payable	553,697	448,940
Accrued expenses	1,186,726	173,577
Deferred revenue	2,249,575	-
Net cash from operating activities	6,809,265	1,175,687
Cash flows from investing activities		
Advances made to Elizabeth Supportive Medical Services	-	(35,000)
Repayments on advances to Elizabeth Supportive Medical Services	15,376	19,624
Purchase of property and equipment	(72,079)	(162,326)
Proceeds from sales of investments	8,007,265	5,423,386
Purchases of investments	(10,340,208)	(7,466,419)
Net cash from investing activities	(2,389,646)	(2,220,735)
Cash flows from financing activities		
Proceeds from borrowings on line of credit	21,886,000	22,459,869
Principal payments on line of credit	(21,886,000)	(22,459,869)
Net cash from financing activities	-	-
Net change in cash and cash equivalents	4,419,619	(1,045,048)
Cash and cash equivalents at beginning of year	598,372	1,643,420
Cash and cash equivalents at end of year	$ 5,017,991	$ 598,372
Supplemental disclosures of cash flow information		
Cash paid for interest during the year	$ 30,088	$ 48,646

See accompanying notes to financial statements.

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. California Hospice Network was formed to commit to sustaining local, nonprofit, community-based hospice care throughout California. Effective August 1, 2019, California Hospice Network became the sole corporate member of the Organization. Effective July 1, 2020, the Organization and California Hospice Network signed a disaffiliation agreement making California Hospice Network no longer the sole corporate member of the Organization. As of June 30, 2020, the Organization has amounts due from California Hospice Network in the amount of $215,707 which is included in prepaid expenses and other on the balance sheets, related to payment made on behalf of California Hospice Network. The Organization is required to pay membership fees to California Hospice Network. During the year ended June 30, 2020, the Organization incurred membership fees of $330,827. Such amounts are included in management and general expenses in the statements of operations and changes in net assets.

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, 2020 and 2019 was $35,892 and $159,118, 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 no borrowings outstanding on the line of credit at June 30, 2020. ESMS had borrowings outstanding on the line of credit at June 30, 2019 of $15,376.

Coronavirus Pandemic and CARES Act Funding: In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The extent to which the coronavirus outbreak could impact the Organization’s business, financial condition, and results of operations will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, and recovery, which are highly uncertain and cannot be predicted with confidence, and the effectiveness of actions taken in the United States and other countries to contain and treat the disease. Potential risk and uncertainties arising from national events designed to contain the coronavirus could include collectability issues related to accounts receivable, reduced investment income, and negative impact to overall cash flows of the Organization.

(Continued)

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

The Coronavirus Aid, Relief, and Economic Security (CARES) Act became law on March 27, 2020. It was a response to the market volatility and instability resulting from the coronavirus pandemic, and includes provisions to support individuals and businesses in the form of loans, grants, and tax changes, among other types of relief. The CARES Act adds $175 billion to the “Public Health and Social Services Emergency Fund” to reimburse eligible health care providers for health care related expenses or lost revenues attributable to coronavirus that are outside of routine payments they will receive for direct patient care. During April 2020, the Organization received $2,239,857 under such fund. Such payments are accounted for as government grants, and are recognized as revenue once the terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the funds and the impact of the coronavirus pandemic on the Organization's operations through June 30, 2020, the Organization recognized $170,797 related to these payments and is included within grants from governmental agencies in the statements of operations and changes in net assets. The unrecognized amount of these funds of $2,069,060 are recorded within deferred revenue in the balance sheets. These funds come with terms and conditions including providing certifications in which all providers will be required to submit documents to ensure the funds will be used for healthcare related expenses or lost revenue attributable to the coronavirus. If the Organization is unable to attest to or comply with current or future terms and conditions the Organization's ability to retain some or all of the distributions received may be impacted.

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, 2020 and 2019, board designated net assets consist of $11,083,704 and $8,530,559, 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, 2020 and 2019, purpose or time restricted net assets consisted of donor restricted funds designated for various programs and unspent endowment earnings.

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.

(Continued)

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

Patient Accounts Receivable: The patient accounts receivable balance represents the unpaid amounts billed to patients and third-party payors. Contractual adjustments and discounts 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.

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, 2020 and 2019, management believes that no assets were impaired.

Net Patient Service Revenue: Net patient service revenues are reported at the amount that reflects the ultimate consideration the Organization expects to receive in exchange for providing patient care. These amounts are due from third-party payors, primarily commercial health insurers and government programs (Medicare and Medicaid), and includes variable consideration for revenue adjustments due to settlements of audits and reviews, as well as certain hospice-specific revenue capitations. Amounts are generally billed monthly or subsequent to patient discharge. Subsequent changes in the transaction price initially recognized are not significant.

Net patient service revenues by major payor sources are as follows for the years ended June 30:

	For the year ended June 30, 2020				
	Medicare	Medicaid	Commercial and Other	Self Pay	Total
Gross patient charges	$ 34,959,692	$ 6,155,674	$ 2,346,349	$ 83,017	$ 43,544,732
Contractual allowances and implicit price concessions	(2,879,765)	(3,130,161)	(760,625)	(8,137)	(6,778,688)
Net patient service revenues	$ 32,079,927	$ 3,025,513	$ 1,585,724	$ 74,880	$ 36,766,044

(Continued)

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

	For the year ended June 30, 2019				
	Medicare	Medicaid	Commercial and Other	Self Pay	Total
Gross patient charges	$ 35,275,605	$ 5,629,790	$ 2,360,262	$ 53,434	$ 43,319,091
Contractual allowances and implicit price concessions	(2,381,564)	(3,208,857)	(887,632)	(14,704)	(6,492,757)
Net patient service revenues	$ 32,894,041	$ 2,420,933	$ 1,472,630	$ 38,730	$ 36,826,334

Hospice services are provided on a daily basis and the type of service provided is determined based on a physician's determination of each patient's specific needs on that given day. Reimbursement rates for hospice services are on a *per diem* basis regardless of the type of service provided or the payor. Reimbursement rates from government programs are established by the appropriate governmental agency and are standard across all hospice providers. Reimbursement rates from health insurers are negotiated with each payor and generally structured to closely mirror the Medicare reimbursement model. The types of hospice services provided and associated reimbursement model for each are as follows:

Routine Home Care occurs when a patient receives hospice care in their home, including a nursing home setting. The routine home care rate is paid for each day that a patient is in a hospice program and is not receiving one of the other categories of hospice care. For Medicare patients, the routine home care rate reflects a two-tiered rate, with a higher rate for the first 60 days of a hospice patient's care and a lower rate for days 61 and after. In addition, there is a Service Intensity Add-on payment which covers direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient's life, reimbursed up to four hours per day in fifteen minute increments at the continuous home care rate.

General Inpatient Care occurs when a patient requires services in a controlled setting for a short period of time for pain control or symptom management which cannot be managed in other settings. General inpatient care services must be provided in a Medicare or Medicaid certified hospital or long-term care facility or at a freestanding inpatient hospice facility with the required registered nurse staffing.

Continuous Home Care is provided to patients while at home, including a nursing home setting, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24-hour day, which begins at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed nurse practitioner. While the published Medicare continuous home care rates are daily rates, Medicare pays for continuous home care in fifteen minute increments. This fifteen minute rate is calculated by dividing the daily rate by 96.

Respite Care permits a hospice patient to receive services on an inpatient basis for a short period of time in order to provide relief for the patient's family or other caregivers from the demands of caring for the patient. A hospice can receive payment for respite care for a given patient for up to five consecutive days at a time, after which respite care is reimbursed at the routine home care rate.

(Continued)

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

Each level of care represents a separate promise under the contract of care and is provided independently for each patient, contingent upon the patient's specific medical needs as determined by a physician. However, the clinical criteria used to determine a patient's level of care is consistent across all patients, given that each patient is subject to the same payor rules and regulations. As a result, the Organization has concluded that each level of care is capable of being distinct and is distinct in the context of the contract. Furthermore, the Organization has determined that each level of care represents a stand ready service provided as a series of either days or hours of patient care. The Organization believes that the performance obligations for each level of care meet criteria to be satisfied over time. The Organization recognizes revenue based on the service output. The Organization believes this to be the most faithful depiction of the transfer of control of services as the patient simultaneously receives and consumes the benefits provided by the Organization's performance. Revenue is recognized on a daily or hourly basis for each patient in accordance with the reimbursement model for each type of service. The Organization's performance obligations relate to contracts with an expected duration of less than one year. Therefore, the Organization has elected to apply the optional exception provided in ASC 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above relate to bereavement services provided to patients' families for up to 12 months after death of patient.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance which vary in amount. The Organization also provides service to patients without a reimbursement source and may offer those patients discounts from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance, along with those uninsured patients, based on historical experience and current conditions. The estimate of any contractual adjustments, discounts, or implicit price concessions reduces the amount of revenue initially recognized. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the patients' ability to pay (i.e. change in credit risk) are recorded as bad debt expense. The Organization has no material adjustments related to subsequent changes in the estimate of the transaction price or subsequent changes as the result of an adverse change in the patient's ability to pay for any period reported.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Compliance with such laws and regulations may be subject to future government review and interpretation. Additionally, the contracts the Organization has with commercial health insurance payors provide for retroactive audit and review of claims. Settlement with third party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. The variable consideration is estimated based on the terms of the payment agreement, existing correspondence from the payor and our historical settlement activity. These estimates are adjusted in future periods, as new information becomes available. 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.

For the Organization's patients in the nursing home setting in which Medicaid pays the nursing home room and board, the Organization serves as a pass-through between Medicaid and the nursing home. The Organization is responsible for paying the nursing home for that patient's room and board. Medicaid reimburses the Organization for 95% of the amount paid to the nursing home. The Organization has concluded that the 5% difference between the amount paid to the nursing home and the amount received from Medicaid is an adjustment to transaction price and, as a result, the 5% is recognized as a reduction to revenue recognized in the accompanying consolidated financial statements.

(Continued)

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

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 Organization did not exceed the 20% cap related to inpatient days in June 30, 2020 and 2019. The second limit relates to an aggregate Medicare reimbursement cap calculated by the Organization. The Organization did not exceed the Medicare reimbursement cap for the years ended June 30, 2020 and 2019.

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 $301,000 and $362,000 for the years ended June 30, 2020 and 2019, 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.

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, 2020 and 2019.

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

Recently Adopted Accounting Pronouncement: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization adopted this guidance effective July 1, 2019 on a full retrospective basis.

The ASU provides a five-step model for recognition of revenue and its core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. To achieve the core principle, a company applies the five-step model of (1) identifying the contract(s) with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligation in the contract, and (5) recognizing revenue when (or as) the entity satisfies a performance obligation. Due to the adoption of Topic 606, bad debt expense was reclassified from direct patient care expense to net patient service revenue for the years ended June 30, 2020 and 2019.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2020 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2020. Management performed their analysis through September 17, 2020, 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:

	2020	2019
Cash and cash equivalents	$ 5,017,991	$ 598,372
Patient accounts receivable, net	4,789,889	4,459,744
Note receivable	-	15,376
Investments	22,774,729	20,252,936
	32,582,609	25,326,428
Less net assets with donor restrictions	(7,524,660)	(7,646,544)
	$ 25,057,949	$ 17,679,884

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.

(Continued)

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 $4,301,035 and $4,203,833 as of June 30, 2020 and 2019, respectively. The Endowment Fund, Board Directed Endowment, and Anonymous Endowment are Board designated and donor restricted with a value of $18,473,694 and $16,049,103 as of June 30, 2020 and 2019, respectively.

NOTE 3 - PATIENT ACCOUNTS RECEIVABLE

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

	2020	2019
Medicare	$ 3,766,192	$ 3,090,430
Medicaid	979,060	1,202,007
Commercial and other	346,682	445,623
	5,091,934	4,738,060
Less implicit price concessions	(302,045)	(278,316)
	$ 4,789,889	$ 4,459,744

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.

(Continued)

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, 2020 and 2019.

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, 2020 and 2019.

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:

	Fair Value Measurements at June 30, 2020			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	$ 1,406,365	$ -	$ -	$ 1,406,365
Common stocks	1,952,341	-	-	1,952,341
Exchange traded funds	11,120,392	-	-	11,120,392
Equity mutual funds	1,243,808	-	-	1,243,808
Fixed income mutual funds	6,460,962	-	-	6,460,962
Hedge funds	590,861	-	-	590,861
Total investments	$ 22,774,729	$ -	$ -	$ 22,774,729

	Fair Value Measurements at June 30, 2019			
	Level 1	Level 2	Level 3	Total
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	906,120	-	-	906,120
Total investments	$ 20,252,936	$ -	$ -	$ 20,252,936

(Continued)

NOTE 4 - INVESTMENTS AND FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

	2020	2019
Interest and dividends, net of fees	$ 337,687	$ 242,457
Realized gains (losses) on investments	(138,402)	268,799
	199,285	511,256
Unrealized gains on investments	327,252	342,781
	$ 526,537	$ 854,037

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:

	2020	2019
Land	$ 879,235	$ 879,235
Buildings	2,933,434	2,933,434
Office equipment	1,416,902	1,350,402
Furniture and fixtures	557,898	557,898
	5,787,469	5,720,969
Less accumulated depreciation	(2,828,056)	(2,497,858)
	$ 2,959,413	$ 3,223,111

Depreciation expense for the years ended June 30, 2020 and 2019 was $332,894 and $361,784, respectively.

NOTE 6 - LINES OF CREDIT

The Organization maintains a $1,000,000 line of credit with a financial institution bearing interest at LIBOR plus 1.75% (1.91% and 4.12% as of June 30, 2020 and 2019, 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, 2020 or 2019.

In November 2018 the Organization obtained a $2,500,000 line of credit with a financial institution bearing interest at LIBOR plus 2.50% (2.66% and 4.87% as of June 30, 2020 and 2019, respectively). The line of credit is secured by equipment and fixtures, inventory, and receivables of the Organization and expires in December 2020. The Organization had no borrowings outstanding on the line of credit at June 30, 2020 or 2019.

(Continued)

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Time or purpose		
Unappropriated endowment earnings	$ 361,666	$ 490,219
Staff education	120,000	120,000
Other	14,669	8,000
	496,335	618,219
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	880,327	880,327
	7,028,325	7,028,325
	$ 7,524,660	$ 7,646,544

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

	2020	2019
Unappropriated endowment earnings	$ 370,449	$ 377,061
Other	-	182,829
	$ 370,449	$ 559,890

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.

(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, 2020 and 2019.

(Continued)

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:

2020:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
Beginning balance	$ 8,530,559	$ 490,219	$ 7,028,325	$ 16,049,103
Interest and dividends, net of fees	170,334	128,843	-	299,177
Net realized and unrealized gains	40,328	113,053	-	153,381
Additions	2,342,483	-	-	2,342,483
Appropriations for expenditure	-	(370,449)	-	(370,449)
Total endowment	$ 11,083,704	$ 361,666	$ 7,028,325	$ 18,473,695

2019:

	Without Donor Restrictions	With Donor Restrictions		
	Board Designated	Accumulated Earnings	Original Gift	Total
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	-	(377,061)	-	(377,061)
Total endowment	$ 8,530,559	$ 490,219	$ 7,028,325	$ 16,049,103

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 $1,262,292 and $1,236,619 for the years ended June 30, 2020 and 2019, respectively. Future minimum lease commitments are as follows:

2021	$ 1,251,652
2022	1,197,308
2023	771,368
2024	59,487
	$ 3,279,815

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, 2020					
	Direct Patient Care	Indirect Patient Care	Community Outreach	Management and General	Fundraising	Total
Accounting fees	$ -	$ -	$ -	$ 58,370	$ -	$ 58,370
Advertising and promo	-	8,739	49,456	82,268	4,993	145,456
Benefits	647,742	117,145	20,673	124,036	20,673	930,269
Conferences, meetings	18,238	62,751	99,971	104,892	79,587	365,439
Depreciation	191,276	73,882	16,467	33,106	18,163	332,894
DME	1,382,395	-	-	-	-	1,382,395
Drugs	1,022,913	-	-	-	-	1,022,913
Facility related	971,855	375,388	83,669	170,994	92,282	1,694,188
Fee for service other	468,535	845,912	65,136	1,195,802	-	2,575,385
Information technology	363,615	84,083	12,612	132,912	36,571	629,793
Inpatient services	44,350	-	-	-	-	44,350
Insurance	925	-	-	287,724	-	288,649
Legal expenses	-	4,657	-	110,895	-	115,552
Medical supplies	847,360	-	-	-	-	847,360
Office expenses	92,378	48,594	10,671	68,723	14,411	234,777
Other employee benefits	1,487,192	649,251	11,126	247,482	31,403	2,426,454
Other patient expenses	144,469	310	-	-	7,401	152,180
Other salaries and wages	11,618,153	5,612,111	429,386	3,600,535	496,980	21,757,165
Payroll processing fees	-	-	-	60,006	-	60,006
Payroll taxes	851,594	399,900	31,419	169,198	34,404	1,486,515
Pension plan accruals	258,562	131,707	9,825	82,329	14,057	496,480
Transportation	57,016	-	-	-	-	57,016
Travel expenses	633,474	96,797	8,170	92,003	1,085	831,529
	$21,102,042	$ 8,511,227	$ 848,581	$ 6,621,275	$ 852,010	$ 37,935,135

(Continued)

NOTE 10 - FUNCTIONAL EXPENSES (Continued)

For the year ended June 30, 2019

	Direct Patient Care	Indirect Patient Care	Community Outreach	Management and General	Fundraising	Total
Accounting fees	$ -	$ -	$ -	$ 47,414	$ -	$ 47,414
Advertising and promo	-	623	54,908	75,316	39,008	169,855
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 plsn accruals	189,932	136,442	25,761	89,588	12,300	454,023
Transportation	42,929	-	-	-	-	42,929
Travel expenses	620,460	89,184	36,658	141,489	3,071	890,862
	$19,803,500	$ 9,750,234	$ 2,330,272	$ 7,285,105	$ 882,194	$ 40,051,305

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)

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 $496,480 and $454,023 for the years ended June 30, 2020 and 2019, respectively.

The Organization offers a 457(b) deferred compensation plan. A select group of management employees are eligible to participate in the plan. The plan provides for employer contributions at the employers sole discretion. The Organization made no contributions to the plan for the years ended June 30, 2020 and 2019. Plan participants have the option to make personal contributions to the plan. The contributions are held in investment accounts, administered by a third party, pending distribution upon vesting portions and severance of employment of the participants. At June 30, 2020 the Organization maintained approximately $417,000 in plan assets included within prepaid expenses and other and approximately $417,000 due to plan participants included within accrued expenses in the balance sheets.