



ROCKBRIDGE AREA HOSPICE, INC.

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2017

ROCKBRIDGE AREA HOSPICE, INC.

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
 <u>Financial Statements</u>	
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-17
 <u>Compliance</u>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-19

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

**TO THE BOARD OF DIRECTORS
ROCKBRIDGE AREA HOSPICE, INC.
LEXINGTON, VIRGINIA**

Report on the Financial Statements

We have audited the accompanying financial statements of Rockbridge Area Hospice, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rockbridge Area Hospice, Inc. as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Rockbridge Area Hospice, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2018, on our consideration of Rockbridge Area Hospice, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rockbridge Area Hospice, Inc.'s internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
February 23, 2018

FINANCIAL STATEMENTS

ROCKBRIDGE AREA HOSPICE, INC.
Statement of Financial Position
September 30, 2017
(With Comparative Totals for 2016)

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and cash equivalents	\$ 85,380	\$ 167,865
Accounts receivable, net of allowance of \$3,000 for 2017 and 2016	196,144	176,892
Grants receivable	21,000	-
Accounts receivable - other	-	105
Prepaid expenses	15,732	3,032
Investment securities	2,659,400	2,586,280
Other assets	5,908	5,908
Beneficial interests in assets held by others	697,717	69,847
Total current assets	<u>\$ 3,681,281</u>	<u>\$ 3,009,929</u>
Noncurrent Assets:		
Property and Equipment:		
Land	\$ 97,415	\$ 97,415
Land improvements	30,339	30,339
Building and building improvements	521,925	521,925
Equipment and furniture	99,815	91,364
Total property and equipment	<u>\$ 749,494</u>	<u>\$ 741,043</u>
Less: Accumulated depreciation	<u>(275,517)</u>	<u>(263,157)</u>
Net property and equipment	<u>\$ 473,977</u>	<u>\$ 477,886</u>
Total noncurrent assets	<u>\$ 473,977</u>	<u>\$ 477,886</u>
Total assets	<u><u>\$ 4,155,258</u></u>	<u><u>\$ 3,487,815</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 56,350	\$ 44,956
Payroll taxes payable	12,945	14,078
Accrued salaries and wages	25,032	38,448
Accrued leave	50,686	31,305
Total liabilities	<u>\$ 145,013</u>	<u>\$ 128,787</u>
Net Assets:		
Unrestricted net assets	\$ 3,301,068	\$ 3,277,721
Temporarily restricted net assets	697,717	69,847
Permanently restricted net assets	11,460	11,460
Total net assets	<u>\$ 4,010,245</u>	<u>\$ 3,359,028</u>
Total liabilities and net assets	<u><u>\$ 4,155,258</u></u>	<u><u>\$ 3,487,815</u></u>

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

ROCKBRIDGE AREA HOSPICE, INC.
Statement of Activities
Year Ended September 30, 2017
(With Comparative Totals for 2016)

Changes in Unrestricted Net Assets	2017	2016
Revenues and gains:		
Service fees	\$ 1,674,753	\$ 1,678,227
Contributions and grants	363,234	229,487
Investment income	552,667	89,099
Unrealized investment gain (loss)	(350,253)	202,386
Total revenues and gains	\$ 2,240,401	\$ 2,199,199
Net assets released from restrictions	-	3,012
Total revenues, gains, and other support	\$ 2,240,401	\$ 2,202,211
Expenses:		
Program Services:		
Patient and family services	\$ 1,248,497	\$ 1,330,451
Bereavement and volunteer programs	78,879	82,847
Public relations and other program costs	193,794	55,743
Supporting Services:		
Management and general	652,261	529,839
Fund-raising	43,623	102,270
Total expenses	\$ 2,217,054	\$ 2,101,150
Change in unrestricted net assets	\$ 23,347	\$ 101,061
Changes in temporarily restricted net assets		
Change in value of beneficial interests in assets held by others	\$ 627,870	\$ (1,978)
Net assets released from restrictions	-	(3,012)
Change in temporarily restricted net assets	\$ 627,870	\$ (4,990)
Change in net assets	\$ 651,217	\$ 96,071
Net assets at beginning of year	3,359,028	3,262,957
Net assets at end of year	\$ 4,010,245	\$ 3,359,028

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

ROCKBRIDGE AREA HOSPICE, INC.
Statement of Functional Expenses
Year Ended September 30, 2017
(With Comparative Totals for 2016)

<u>Expense</u>	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total September 30, 2017</u>
		<u>Management and General</u>	<u>Fund-Raising</u>	
Salaries	\$ 695,456	\$ 423,846	\$ 8,088	\$ 1,127,390
Payroll taxes	55,106	27,318	590	83,014
Fringe benefits	105,069	52,086	1,125	158,280
Medications	74,987	-	-	74,987
Durable medical equipment	94,689	-	-	94,689
Occupancy costs	18,010	8,466	174	26,650
Travel	4,968	103	51	5,122
Insurance	21,403	10,610	229	32,242
Communications	16,783	2,614	64	19,461
Administrative expenses	62,715	70,760	13,796	147,271
Fund-raising and development	6,775	-	15,807	22,582
Patient services	93,524	-	-	93,524
Supplies and postage	11,767	5,322	1,143	18,232
Equipment rent and maintenance	35,714	27,605	2,348	65,667
Depreciation	18,003	8,925	193	27,121
Loss on disposal of fixed asset	531	263	6	800
Nursing home and inpatient	190,726	-	-	190,726
Other expenses	14,944	14,343	9	29,296
Totals	<u>\$ 1,521,170</u>	<u>\$ 652,261</u>	<u>\$ 43,623</u>	<u>\$ 2,217,054</u>

<u>Expense</u>	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total September 30, 2016</u>
		<u>Management and General</u>	<u>Fund-Raising</u>	
Salaries	\$ 638,155	\$ 332,106	\$ 53,031	\$ 1,023,292
Payroll taxes	50,502	18,740	3,722	72,964
Fringe benefits	85,582	31,758	6,307	123,647
Medications	89,774	-	-	89,774
Durable medical equipment	66,967	-	-	66,967
Occupancy costs	17,472	6,484	1,288	25,244
Travel	3,608	74	37	3,719
Insurance	20,924	7,765	1,542	30,231
Communications	19,967	3,453	509	23,929
Administrative expenses	65,869	82,898	10,214	158,981
Fund-raising and development	8,224	-	19,189	27,413
Patient services	81,525	-	-	81,525
Supplies and postage	4,248	1,569	363	6,180
Equipment rent and maintenance	48,579	33,033	4,545	86,157
Depreciation	18,052	6,699	1,330	26,081
Loss on disposal of fixed asset	595	221	44	860
Nursing home and inpatient	238,242	-	-	238,242
Other expenses	10,756	5,039	149	15,944
Totals	<u>\$ 1,469,041</u>	<u>\$ 529,839</u>	<u>\$ 102,270</u>	<u>\$ 2,101,150</u>

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

ROCKBRIDGE AREA HOSPICE, INC.
Statement of Cash Flows
Year Ended September 30, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 651,217	\$ 96,071
Adjustments to reconcile the change in net assets to net cash flows from operating activities:		
Realized loss (gain) on securities	(486,620)	(11,950)
(Gain) loss on disposal of property	800	860
Depreciation expense	27,121	26,081
Unrealized (gains) and losses and reinvested dividends	308,790	(252,794)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(19,252)	(20,182)
(Increase) decrease in contributions receivable	(21,000)	1,050
(Increase) decrease in accounts receivable - other	105	(105)
(Increase) decrease in prepaid expenses	(12,700)	542
Increase (decrease) in accounts payable	11,394	(27,374)
Increase (decrease) in payroll taxes payable	(1,133)	(1,591)
Increase (decrease) in accrued salaries and wages	(13,416)	(14,903)
Increase (decrease) in accrued leave	19,381	(9,015)
Increase (decrease) in deferred revenue	-	(2,500)
Net cash flows provided by (used for) operating activities	\$ 464,687	\$ (215,810)
Cash flows from investing activities:		
Net (deposits) withdrawals to/from investment accounts	\$ 104,709	\$ 100,000
Purchase of property and equipment	(24,011)	(8,395)
Change in beneficial interest in assets held by others	(627,870)	1,978
Net cash flows provided by (used for) investing activities	\$ (547,172)	\$ 93,583
Net change in cash and cash equivalents	\$ (82,485)	\$ (122,227)
Cash and cash equivalents at beginning of year	167,865	290,092
Cash and cash equivalents at end of year	\$ 85,380	\$ 167,865

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

ROCKBRIDGE AREA HOSPICE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1—DESCRIPTION OF THE ORGANIZATION:

Rockbridge Area Hospice, Inc. (the Hospice or the Organization) was organized on August 24, 1984 for the purposes of providing palliative and supportive care for terminally ill patients and their families in Rockbridge County, Virginia. Because the Hospice provides services to Medicare and Medicaid certified patients in addition to others, any interruption or significant alteration of the federal Medicare and state Medicaid programs will have an effect on the Hospice.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements of Rockbridge Area Hospice, Inc. have been prepared in accordance with generally accepted accounting principles promulgated in the United States of America. The accounting policies described below have been applied in preparation of the accompanying financial statements.

Net Assets

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. Unrestricted net assets for the years ended September 30, 2017 and 2016 amounted to \$3,301,068 and \$3,277,721, respectively.

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are classified in this class if the donor limited their use.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. New assets restricted for acquisition of building or equipment (or less commonly, the contribution of those assets directly) are reported as temporarily restricted until the specified asset is placed in service by the organization, unless the donor provides more specific directions about the period of its use. Temporarily restricted net assets for the years ended September 30, 2017 and 2016 amounted to \$697,717 and \$69,847, respectively.

Permanently restricted net assets are resources whose use by the Organization is limited by donor-imposed restrictions that neither expires by being used in accordance with a donor's restriction nor by the passage of time. The portion of the Organization's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net assets class. Permanently restricted net assets for the years ended September 30, 2017 and 2016 amounted to \$11,460 and \$11,460, respectively.

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses are reported as decreases in unrestricted net assets.

ROCKBRIDGE AREA HOSPICE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)**

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Contributions

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Accretion of the resulting discount is recognized as additional contribution revenue. An allowance for uncollectible contributions receivable may be determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Investment Securities

Investment securities were purchased with resources that are Board-designed endowments, which are resources set aside by the Board of Directors for an indeterminate period to operate in a manner similar to a donor-restricted permanent endowment or as a strategic reserve. Because a board-designated endowment results from an internal designation, it can be spent upon action of the Board of Directors. Investment securities also include investments purchased with unspent investment income and net gains on these resources.

Investment securities are reported at fair value. The fair value for investments in equity securities traded on national securities exchanges is determined by the closing price on the last business day of the fiscal year; securities traded on the over-the-counter markets are valued at the last reported bid price. The fair value of shares in exchange-traded funds is determined by the closing price on the last business day of the fiscal year. The fair value of open-end mutual fund units is determined by the published net asset value per unit at the end of the last trading day of the fiscal year. (See Note 3).

Beneficial Interest in Trusts

The Organization is the irrevocable beneficiary of three charitable remainder unit trusts. The Organization's beneficial interest in the trusts is reported at its fair value, which is estimated as the fair value of a portion of the underlying trust assets. The value of the beneficial interest in the trusts is adjusted annually for the change in its estimated fair value. Those changes in value are reported as change in temporarily restricted net assets because the trust assets are not currently available for distribution.

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed asset is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

The Organization may be a beneficiary under a donor's will. Contributions from bequests are recognized as contributions receivable when the probate court declares that the will is valid and the Organization has an irrevocable right to the bequest.

ROCKBRIDGE AREA HOSPICE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)**

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Gifts-in-Kind Contributions

The Organization periodically receives contributions in a form other than cash or investments. Donated supplies and consumer goods are passed through to patients and are not recorded.

The Organization benefits from personal services provided by a substantial number of volunteers. Those volunteers have donated significant amounts of time and services in the Organization's program operations and in its fund-raising campaigns. However, the majority of the contributed services do not meet the criteria for recognition in financial statements. Generally Accepted Accounting Principles allow recognition of contributed services only if (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing those skills.

Revenues

Fees for services to patients are billed monthly in arrears to Medicare, Medicaid and other third party payers for services. Interest and dividends on cash investments are recognized as declared.

Land, Buildings, and Equipment Depreciation

Land, buildings, and equipment are stated at cost or at fair value at the date received if by gift. Depreciation expenses have been provided using the straight-line method over the following estimated useful lives:

Buildings	30 years
Building Improvements	15 years
Land Improvements	15 years
Furniture and Equipment	5-10 years

Cash and Cash Equivalents and Short-Term Investments

The Organization considers cash and cash equivalents to include checking account balances and other short-term liquid investments which can be converted to known amounts of cash and carry an insignificant risk or change in value. Short-term investments consist of a bank money market account, used for a working capital facility. When the Organization has over \$250,000 in any one bank, the deposits in excess of \$250,000 are not covered by the Federal Deposit Insurance Corporation (FDIC) and, accordingly, are exposed to custodial credit risk because they are uncollateralized. At September 30, 2017 and 2016 the Organization had no deposits in excess of the insured amount.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, affect the disclosure of contingent assets and liabilities at the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are unsecured, non-interest bearing amounts due from Medicare, Medicaid, third party insurance companies and private sources. Allowance for doubtful accounts for the years ended September 30, 2017 and 2016 was \$3,000.

ROCKBRIDGE AREA HOSPICE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)**

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash Flows

The Hospice has elected to use the indirect method of presenting its cash flows, whereby the change in net assets is reconciled to cash flows from operating activities.

Functional Allocation of Expenses

Cost allocation procedures have been designed to reflect guidance provided by intermediaries for preparation of Medicare Cost Reports. Accordingly, selected costs of office supplies, liability insurance, staff supervision and other activities have been reported as management and general expenses. Bereavement, volunteer, public relations, fund-raising and a portion of management and general expenses are not reportable as reimbursable items for purposes of determining the allowable Medicare payment rate.

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs, such as salaries, benefits, depreciation, utilities, rents, supplies and other generic operating expenses, have been allocated among the programs and supporting services benefitted.

In preparing the cost allocation, management has reported as “medical care services” compensation and benefits to physicians, nurses, certified nurse’s aides, and therapists. The medical care services category is intended to report the costs of health care visits made, the medical supplies provided to patients, the costs of medical record keeping and the costs of supervision and training provided for the staff involved in this program. Public education efforts by the Hospice represent costs of in-service training and public speaking to organizations or groups who are not part of the Hospice program.

Management and general expenses include the functions necessary to provide support to the organization’s program activities. They include those costs that provide governance (Board of Directors), oversight, business management regulation compliance, financial record keeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment.

Fund-raising activities include publicizing and conducting fund-raising campaigns, maintaining donor lists; conducting special fund-raising events; and other activities involved with soliciting contributions from corporations, foundations, individuals, and others. Fund-raising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct its fund-raising activities in conjunction with its other activities. In the few cases in which it does, such as when the newsletter, annual report or donor acknowledgements contain requests for contribution, joint costs have been allocated between fund-raising and management and general expenses in accordance with standards for accounting for costs of activities that include fund-raising. Additionally, advertising costs are expensed as incurred.

Other Assets

The Organization has received gifts of cemetery plots to be used for indigent patients. The plots have been recorded at the fair value of the plots on the date received.

Prior Period Adjustments and Accounting Changes

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

Comparative Data

Prior year totals on the financial statements are presented for informational purposes only.

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)

NOTE 3—FAIR VALUE MEASUREMENTS:

The Organization reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by Generally Accepted Accounting Principles, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the organization has access to the measurement date.
- *Level 2.* Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - Quoted prices of similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets in markets that are not active;
 - Observable inputs other than quoted prices for the asset or liability (e.g., interest rates and yield curves); and inputs derived principally from, or corroborated by, observable market data by correlation or other means.
- *Level 3.* Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Fair values of assets measured on a recurring basis at September 30, 2017 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value at 9/30/17	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 2,290	\$ 2,290	\$ -	\$ -
Corporate bonds	528,610	-	528,610	-
Government bonds	275,759	-	275,759	-
Mutual funds	1,852,741	1,852,741	-	-
Beneficial interest in assets held by others	697,717	-	-	697,717
Total	\$ 3,357,117	\$ 1,855,031	\$ 804,369	\$ 697,717

Fair values of assets measured on a recurring basis at September 30, 2016 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value at 9/30/16	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 62,698	\$ 62,698	\$ -	\$ -
Corporate bonds	595,290	-	595,290	-
Government bonds	236,244	-	236,244	-
Mutual funds	1,692,048	1,692,048	-	-
Beneficial interest in assets held by others	69,847	-	-	69,847
Total	\$ 2,656,127	\$ 1,754,746	\$ 831,534	\$ 69,847

ROCKBRIDGE AREA HOSPICE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)**

NOTE 3—FAIR VALUE MEASUREMENTS: (CONTINUED)

There were no significant transfers between the levels during the year. The Organization's policy is to recognize transfers in and out of the levels at the end of the fiscal year. Interim changes in the availability of fair value inputs are not recognized.

When available, the Organization measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for some of the assets and liabilities that the organization is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The primary uses of fair value measures in the Hospice's financial statements are:

- Initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- Recurring measurement of investment securities (Note 9 and beneficial interest in assets held by others Note 14).

NOTE 4—RETIREMENT PLAN:

The Rockbridge Area Hospice sponsors a defined contribution, contributory retirement plan that is intended to comply with Section 403(b) of the Internal Revenue Code. Substantially all employees are eligible to participate in the plan, which accumulates assets to be used in the purchase of individual tax sheltered annuity contracts. The employer contribution is based on a sliding scale that is set by the Board of Directors. Retirement plan expense for the years ended September 30, 2017 and 2016 was \$14,420 and \$11,260, respectively.

NOTE 5—LEASES:

The Organization has office equipment leases payable monthly at \$551. Rent expense for office equipment for the years ended September 30, 2017 and 2016 were \$9,896 and \$7,665, respectively. The future minimum rents payable are \$6,612 for 2018.

NOTE 6—ALLOCATION OF JOINT COSTS:

The Organization incurred joint costs of \$65,084 and \$64,939 in 2017 and 2016 for informational materials and activities that included fund-raising appeals. In 2017, the Organization allocated \$35,496 to program services, and \$29,588 to fund-raising costs. In 2016, the Organization allocated \$36,081 to program services, and \$28,858 to fund-raising costs.

NOTE 7—INCOME TAXES:

The Organization is exempt from most Federal and State income taxes under the provisions of Internal Revenue Code Section 501(c)(3). Contributions to the Organization are tax deductible to donors under Section 170 of the Code. Rockbridge Area Hospice is not classified as a private foundation.

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)

NOTE 8—GRANTS RECEIVABLE:

Grants receivable of \$21,000 have been reported in the accompanying statement of financial position, and consist of one grant that has been earned, but not received, as of September 30, 2017. There were no grants receivable to be reported at September 30, 2016.

NOTE 9—INVESTMENT SECURITIES:

As discussed in Note 3 to these financial statements, the Organization is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the market place the inputs to the Organization's valuation techniques. Level 1, the most observable level of inputs, is for investments measured at quoted prices in active markets for identical investments as of the September 30, 2017. Level 2 is for investments measured using inputs such as quoted prices for similar assets, quoted prices for the identical asset in inactive markets, and for investments measured at net asset value that can be redeemed in the near term. The Organization uses a brokerage firm pricing service to price most of its level 2 investments. The service employs a proprietary market approach method that uses as inputs observed interest rates and yield curves, prices in active markets for similar assets, and prices for identical assets in inactive markets that have been adjusted by observable indexes. Level 3 is for investments measured using inputs that are unobservable, and is used in situations for which there is little, if any, independent market activity for the investment.

The composition of investment return reported in the statement of activities is as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 65,803	\$ 75,644
Realized (losses) gains	486,620	11,950
Unrealized (losses) gains	<u>(350,253)</u>	<u>202,386</u>
Income from investment securities	\$ 202,170	\$ 289,980
Interest on short-term cash investments	<u>244</u>	<u>1,505</u>
Net investment income	\$ 202,414	\$ 291,485
Adjustment for:		
Unrealized losses (gains)	350,253	(202,386)
Investment income	<u>\$ 552,667</u>	<u>\$ 89,099</u>

Investment securities activity for the years ended September 30, 2017 and 2016 is reflected in the following table:

	<u>2017</u>	<u>2016</u>
Fair value - beginning of the year	\$ 2,586,280	\$ 2,421,536
Income from investment securities	202,170	289,980
Investment management fees	(24,341)	(25,236)
Net capital additions (reductions)	<u>(104,709)</u>	<u>(100,000)</u>
Fair value - end of year	<u>\$ 2,659,400</u>	<u>\$ 2,586,280</u>

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)

NOTE 10—NET ASSETS RELEASED FROM RESTRICTIONS:

Net Assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Connections	\$ -	\$ 2,650
Patient services	-	362
Total	<u>\$ -</u>	<u>\$ 3,012</u>

NOTE 11—TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets at September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Charitable remainder unit trusts	\$ 675,903	\$ 48,282
Endowments	21,814	21,565
Total	<u>\$ 697,717</u>	<u>\$ 69,847</u>

NOTE 12—PROPERTY AND EQUIPMENT:

Details of property and equipment at September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 97,415	\$ 97,415
Land improvements	30,339	30,339
Building and building improvements	521,925	521,925
Equipment and furniture	99,815	91,364
Subtotal	<u>\$ 749,494</u>	<u>\$ 741,043</u>
Less accumulated depreciation	<u>(275,517)</u>	<u>(263,157)</u>
Total	<u>\$ 473,977</u>	<u>\$ 477,886</u>

Depreciation expense for the fiscal year totaled \$27,121.

NOTE 13—ADVERTISING:

Direct response advertising costs are expensed as incurred. Advertising costs in 2017 and 2016 were \$28,452 and \$24,979, respectively.

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)

NOTE 14—BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS:

The Organization has been named as an 8.34% residual beneficiary of two charitable remainder unit trusts, and a 5% residual beneficiary of one charitable remainder unit trust. These resources are neither in the possession of nor under the control of the Organization. The trustee has advised the fair value of the fractional interests received. Primary trust beneficiaries receive current cash distributions. The Organization has recorded the receipt of these remainder interests and subsequent changes in the fair value as temporarily restricted net assets until such time as the trust proceeds are available for disposition. The beneficial interest in the trusts is reported at its fair value. As discussed in Note 3, because there are no observable market transactions for assets similar to the beneficial interests in the trusts and because the trusts cannot currently be redeemed, the valuation technique used by the Organization is a level 3 measure.

The Community Foundation for Rockbridge, Bath and Alleghany (the Foundation) has a Rockbridge Area Hospice Fund, and grants from it are designated solely for the charitable, educational or public purposes of Rockbridge Area Hospice. As discussed in Note 3, because there are no observable market transactions for assets similar to the Foundation's Fund, and because redemption value would be different than reported value, the valuation technique used by the Hospice is a level 3 measure. The fair value of the Fund was \$21,814 at September 30, 2017, representing an increase in value of \$249 from the amount reported at September 30, 2016. The Foundation provides a semi-annual report of the fair value of the Rockbridge Area Hospice Fund.

A reconciliation of the changes in beneficial interest in assets held by others for the years ended September 30, 2017 and 2016 is as follows:

	Charitable Remainder UniTrusts	Community Foundation for Rockbridge, Bath and Alleghany	Total
Balances at September 30, 2015	\$ 50,648	\$ 21,177	\$ 71,825
Change in value of beneficial interest	(2,366)	388	(1,978)
Balances at September 30, 2016	\$ 48,282	\$ 21,565	\$ 69,847
Additional interest contributed	625,000	-	625,000
Change in value of beneficial interest	2,621	249	2,870
Balances at September 30, 2017	<u>\$ 675,903</u>	<u>\$ 21,814</u>	<u>\$ 697,717</u>

ROCKBRIDGE AREA HOSPICE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)**

NOTE 15—ENDOWMENT ASSETS:

The Organization has established an endowment which includes both donor restricted funds and funds designated by the Board of Directors to function as endowments. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Organization's investment policies.

In 2008, the Organization received bequests of \$11,460 from donors to create a permanent endowment. Income earned on the endowment is considered temporarily restricted since the earnings are available for future distribution. Distributions from the endowment are unrestricted and can be used for any purpose to help the organization accomplish its mission. Details of current year endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 21,814	\$ 11,460	\$ 33,274
Board designated endowment funds	2,647,940	-	-	2,647,940
	<u>\$ 2,647,940</u>	<u>\$ 21,814</u>	<u>\$ 11,460</u>	<u>\$ 2,681,214</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at 9/30/16, as restated	\$ 2,574,820	\$ 21,565	\$ 11,460	\$ 2,607,845
Interest/dividends earned	65,802	-	-	65,802
Unrealized gains/losses	(350,254)	249	-	(350,005)
Account advisor fees	(24,341)	-	-	(24,341)
Realized gains/losses	486,620	-	-	486,620
Net deposits/withdrawals	(104,707)	-	-	(104,707)
Endowment net assets at 9/30/17	<u>\$ 2,647,940</u>	<u>\$ 21,814</u>	<u>\$ 11,460</u>	<u>\$ 2,681,214</u>

The endowment net assets balance at September 30, 2016 has been restated above for investment securities held by the Organization that had been previously designated by the Board of Directors to function as an endowment, but was not classified as such in the financial report ended September 30, 2016. The restatement affects only unrestricted net assets and, therefore, no restatement is shown in the accompanying Statement of Financial Position.

ROCKBRIDGE AREA HOSPICE, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 (CONTINUED)**

NOTE 16—INTENTIONS TO GIVE:

In 1996, the Organization received a pledge of one charitable remainder revocable trust. The Organization also received a pledge of one charitable remainder revocable unit trust in 1998. The provisions of both trusts stipulate that the funds are not to be paid to the Organization until the death of the donors. As of September 30, 2017, the Organization's share of both trusts amounted to \$101,978 in total and was still considered intentions to give to the Organization under these stipulations.

NOTE 17—SUBSEQUENT EVENTS:

The Organization has evaluated events and transactions for potential disclosure and recognition through February 23, 2018, the date which these financial statements were available to be issued.

COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO THE BOARD OF DIRECTORS ROCKBRIDGE AREA HOSPICE, INC. LEXINGTON, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rockbridge Area Hospice, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 23, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rockbridge Area Hospice, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rockbridge Area Hospice, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Rockbridge Area Hospice, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rockbridge Area Hospice, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Staunton, Virginia
February 23, 2018