



ROCKBRIDGE AREA HOSPICE, INC.

FINANCIAL REPORT

YEARS ENDED SEPTEMBER 30, 2021

AND 2020

ROCKBRIDGE AREA HOSPICE, INC.

FINANCIAL REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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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 statements of financial position as of September 30, 2021 and 2020, and the related statements of activities, functional expenses, 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.

Auditors' 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 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, 2021 and 2020, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, in fiscal year 2021, Rockbridge Area Hospice, Inc. adopted new accounting guidance, FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2022, 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 solely 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 the effectiveness of Rockbridge Area Hospice, Inc.'s 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 22, 2022

FINANCIAL STATEMENTS

ROCKBRIDGE AREA HOSPICE, INC.
Statements of Financial Position
September 30, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash and cash equivalents	\$ 1,642,778	\$ 726,370
Accounts receivable	192,741	154,443
Prepaid expenses	75,279	49,262
Investment securities	3,226,727	2,761,878
Other assets	5,908	5,908
Beneficial interests in assets held by others	730,394	721,742
Total current assets	<u>\$ 5,873,827</u>	<u>\$ 4,419,603</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	77,634	77,634
Total property and equipment	<u>\$ 727,313</u>	<u>\$ 727,313</u>
Accumulated depreciation	(356,466)	(329,137)
Net property and equipment	<u>\$ 370,847</u>	<u>\$ 398,176</u>
Total noncurrent assets	<u>\$ 370,847</u>	<u>\$ 398,176</u>
Total assets	<u><u>\$ 6,244,674</u></u>	<u><u>\$ 4,817,779</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 27,188	\$ 27,693
Accrued salaries and wages	73,762	65,917
Compensated absences	37,223	46,181
Refundable advances	20,000	4,786
Deferred revenue	183,468	411,798
Total current liabilities	<u>\$ 341,641</u>	<u>\$ 556,375</u>
Total liabilities	<u>\$ 341,641</u>	<u>\$ 556,375</u>
Net Assets:		
Without donor restrictions	\$ 5,186,864	\$ 3,551,304
With donor restrictions	716,169	710,100
Total net assets	<u>\$ 5,903,033</u>	<u>\$ 4,261,404</u>
Total liabilities and net assets	<u><u>\$ 6,244,674</u></u>	<u><u>\$ 4,817,779</u></u>

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

ROCKBRIDGE AREA HOSPICE, INC.
Statements of Activities
Years Ended September 30, 2021 and 2020

	2021	2020
Changes in net assets without donor restrictions:		
Revenues and gains:		
Service fees	\$ 1,926,854	\$ 1,701,376
Contributions and grants	1,139,162	367,526
Forgiveness of PPP loan	323,880	-
Operating interest income	1,391	1,222
Investment return, net	583,149	199,941
Change in value of beneficial interests in assets held by others	2,583	(128)
Miscellaneous	3,068	1,976
Total revenues and gains without donor restrictions	\$ 3,980,087	\$ 2,271,913
Expenses:		
Program services:		
Patient and family services	\$ 1,781,125	\$ 1,632,355
Public relations and other program costs	87,907	114,523
Supporting services:		
Management and general	458,530	444,632
Fundraising	16,965	14,719
Total expenses	\$ 2,344,527	\$ 2,206,229
Change in net assets without donor restrictions	\$ 1,635,560	\$ 65,684
Changes in net assets with donor restrictions:		
Change in value of beneficial interests in assets held by others	\$ 6,069	\$ 6,573
Change in net assets with donor restrictions	\$ 6,069	\$ 6,573
Change in net assets	\$ 1,641,629	\$ 72,257
Net assets at beginning of year	4,261,404	4,189,147
Net assets at end of year	\$ 5,903,033	\$ 4,261,404

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

ROCKBRIDGE AREA HOSPICE, INC.
Statements of Functional Expenses
Years Ended September 30, 2021 and 2020

Expense	Program Services		Supporting Services		September 30, 2021
	Patient and Family Services	Public Relations and other Program Costs	Management and General	Fund- Raising	
Salaries	\$ 1,028,980	\$ 46,880	\$ 327,741	\$ -	1,403,601
Payroll taxes	78,900	3,595	25,130	-	107,625
Fringe benefits	140,134	6,384	44,634	-	191,152
Medications	147,118	-	-	-	147,118
Durable medical equipment	86,130	-	-	-	86,130
Occupancy costs	15,784	437	5,027	282	21,530
Insurance	29,266	810	9,322	523	39,921
Communications	10,975	304	3,496	196	14,971
Administrative expenses	29,826	826	18,339	533	49,524
Fundraising and development	-	26,510	-	14,037	40,547
Patient services	129,913	-	-	-	129,913
Supplies and postage	7,098	197	2,261	127	9,683
Equipment rent and maintenance	42,216	1,169	13,446	754	57,585
Depreciation	20,035	555	6,381	358	27,329
Nursing home and inpatient	6,107	-	-	-	6,107
Other expenses	8,643	240	2,753	155	11,791
Totals	\$ 1,781,125	\$ 87,907	\$ 458,530	\$ 16,965	\$ 2,344,527

Expense	Program Services		Supporting Services		Total September 30, 2020
	Patient and Family Services	Public Relations and other Program Costs	Management and General	Fund- Raising	
Salaries	\$ 959,669	\$ 60,940	\$ 318,231	\$ 504	1,339,344
Payroll taxes	69,103	4,384	22,891	36	96,414
Fringe benefits	141,280	8,962	46,801	74	197,117
Medications	119,931	-	-	-	119,931
Durable medical equipment	88,942	-	-	-	88,942
Occupancy costs	14,231	903	4,714	7	19,855
Travel	-	572	515	57	1,144
Insurance	26,945	1,709	8,926	14	37,594
Communications	10,454	663	3,463	5	14,585
Administrative expenses	14,281	29,826	18,976	10,353	73,436
Fundraising and development	-	1,186	-	2,767	3,953
Patient services	94,737	-	-	-	94,737
Supplies and postage	7,963	1,674	2,581	716	12,934
Equipment rent and maintenance	38,552	1,058	6,883	168	46,661
Depreciation	19,949	1,265	6,608	10	27,832
Nursing home and inpatient	19,259	-	-	-	19,259
Other expenses	7,059	1,381	4,043	8	12,491
Totals	\$ 1,632,355	\$ 114,523	\$ 444,632	\$ 14,719	\$ 2,206,229

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

ROCKBRIDGE AREA HOSPICE, INC.
Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 1,641,629	\$ 72,257
Adjustments to reconcile the change in net assets to net cash flows from operating activities:		
Investment return, net	(583,149)	(199,941)
Depreciation expense	27,329	27,832
Forgiveness of PPP loan	(323,880)	-
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(38,298)	16,932
(Increase) decrease in prepaid expenses	(26,017)	(20,786)
Increase (decrease) in accounts payable	(505)	407
Increase (decrease) in accrued salaries and wages	7,845	4,721
Increase (decrease) in accrued leave	(8,958)	7,271
Increase (decrease) in refundable advances	15,214	4,786
Increase (decrease) in deferred revenue	(228,330)	411,798
Net cash flows provided by (used for) operating activities	\$ 482,880	\$ 325,277
 Cash flows from investing activities:		
Net (deposits) withdrawals to/from investment accounts	\$ 118,300	\$ 118,600
Change in beneficial interest in assets held by others	(8,652)	(6,445)
Net cash flows provided by (used for) investing activities	\$ 109,648	\$ 112,155
 Cash flows from financing activities:		
Proceeds from indebtedness	\$ 323,880	\$ -
 Net change in cash and cash equivalents	\$ 916,408	\$ 437,432
 Cash and cash equivalents at beginning of year	726,370	288,938
 Cash and cash equivalents at end of year	\$ 1,642,778	\$ 726,370

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

ROCKBRIDGE AREA HOSPICE, INC.

Notes to Financial Statements September 30, 2021 and 2020

NOTE 1—DESCRIPTION OF THE ORGANIZATION:

Rockbridge Area Hospice, Inc. (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 Organization 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 Organization.

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 two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions are net assets that are not subject to donor-imposed stipulations, or the net assets that were donated with donor-imposed stipulations and released from restriction within the same fiscal year. Net assets without donor restrictions for the years ended September 30, 2021 and 2020 amounted to \$5,186,864 and \$3,551,304, respectively.

Net assets with donor restrictions are resources whose use by the Organization is limited by donor-imposed restrictions. This category includes both donor restrictions that are temporary in nature, and those that neither expire 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. Net assets with donor restrictions for the years ended September 30, 2021 and 2020 amounted to \$716,169 and \$710,100, respectively.

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the use of the related resources is subject to donor restrictions. All expenses and net losses are reported as decreases in net assets without donor restrictions.

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.

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2021 and 2020 (CONTINUED)**

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

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 endowment fund 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 net assets with donor restrictions 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 net assets without donor restrictions 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 net assets with donor restrictions. 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 net assets with donor restrictions until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year. 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.

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 personnel 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.

ROCKBRIDGE AREA HOSPICE, INC.

Notes to Financial Statements September 30, 2021 and 2020 (CONTINUED)

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

Patient Service Revenue and Accounts Receivable

Patient service revenue results from services recognized over time made up of charges for hospice related services and includes payments from Medicare, Medicaid, third party payors and patients.

Total patient service fee revenue is net of contractual adjustments from Medicare, Medicaid, and third-party payors. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of services provided by the Organization. The transaction price is based on standard charges for services provided by patients reduced by applicable contractual adjustments. The estimates of contractual adjustments are based on contractual agreements and historical collection experience. The process for estimating the ultimate collectability of patient accounts receivable involves historical collection experience, changes in contracts with payors and significant assumptions and judgement.

The Organization has elected to apply the practical expedient allowed under FASB ASC 606-10-10-4 for applying to a portfolio of contracts with similar characteristics. The Organization accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio. The portfolios consist of major payor classes for patient service revenue. Based on historical collection trends and other analysis. The Organization has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The Organization has elected to apply the practical expedient allowed under FASB ASC 606-10-32-18 for the financing component, as the period of time between the service being provided and the time that the patient pays for services is typically one year or less.

Refundable Advances

Refundable advances represent the amount awarded under grant contracts that will be expended in the next fiscal year in accordance with the grant period. Refundable advances amounted to \$20,000 and \$4,786 as of September 30, 2021 and September 30, 2020, respectively.

Deferred Revenue

Deferred revenue consists of the Medicare Accelerated Payment in the amount of \$167,408 that was made by Medicaid in April 2020 to help aid providers to operate through the COVID-19 pandemic. In addition, the Organization received fundraising income in the amount of \$16,060 related to a fundraiser being held in December 2021. Deferred revenue amounted to \$183,468, and \$411,798 as of September 30, 2021 and September 30, 2020, respectively.

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

ROCKBRIDGE AREA HOSPICE, INC.

Notes to Financial Statements September 30, 2021 and 2020 (CONTINUED)

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

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, 2021, the Organization had \$1,403,715 in uninsured cash. At September 30, 2020, the Organization had \$509,872 in uninsured cash.

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.

Cash Flows

The Organization 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.

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.

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. 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.

ROCKBRIDGE AREA HOSPICE, INC.

Notes to Financial Statements September 30, 2021 and 2020 (CONTINUED)

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

Functional Allocation of Expenses (continued)

In preparing the cost allocation, management has reported as “patient and family 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 Organization 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.

Fundraising 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. Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct its fundraising 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 fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

New Accounting Pronouncements

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), to improve the consistency of revenue recognition practices across industries for economically similar transactions. Subsequently, the FASB issued several amendments and updates to the original standard. The core principle is that an entity recognizes revenue for goods or services to customers in the amount that reflects the consideration it expects to receive in return. The Organization adopted ASU 2014-09 on October 1, 2020, using the modified retrospective method of transition. The Organization performed an analysis of revenue streams and transactions under ASU 2014-09. Upon adoption, the majority of what was previously classified as provision for allowance for uncollectible accounts are presented as a reduction to patient service revenue and are treated as a price concession that reduces the transaction price. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgements made in measurement and recognition. The Organization has changed the presentation of its financial statements accordingly. Adoption of the ASU did not result in any reclassifications or restatements to net assets.

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2021 and 2020 (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 (unadjusted) 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 (unadjusted) 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, 2021 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	Fair Value at 9/30/21	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	\$ 112,209	\$ 112,209	\$ -	\$ -
Equity securities	3,114,518	3,114,518	-	-
Beneficial interest in assets held by others	730,394	-	-	730,394
Total	<u>\$ 3,957,121</u>	<u>\$ 3,226,727</u>	<u>\$ -</u>	<u>\$ 730,394</u>

Fair values of assets measured on a recurring basis at September 30, 2020 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	Fair Value at 9/30/20	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	\$ 232,507	\$ 232,507	\$ -	\$ -
Equity securities	2,529,371	2,529,371	-	-
Beneficial interest in assets held by others	721,742	-	-	721,742
Total	<u>\$ 3,483,620</u>	<u>\$ 2,761,878</u>	<u>\$ -</u>	<u>\$ 721,742</u>

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.

ROCKBRIDGE AREA HOSPICE, INC.

Notes to Financial Statements September 30, 2021 and 2020 (CONTINUED)

NOTE 3—FAIR VALUE MEASUREMENTS: (CONTINUED)

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 Organization'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 13).

NOTE 4—RETIREMENT PLAN:

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, 2021 and 2020 was \$27,744 and \$24,551, respectively.

NOTE 5—LEASES:

The Organization has office equipment leases payable monthly at \$258. Rent expense for office equipment for the years ended September 30, 2021 and 2020 were \$4,481 and \$8,283 respectively. The future minimum rents payable are \$3,096 for 2022.

NOTE 6—ALLOCATION OF JOINT COSTS:

The Organization incurred joint costs of \$26,510 and \$33,663 in 2021 and 2020 for informational materials and activities that included fundraising appeals. In 2021, the Organization allocated \$26,510 to program services, and \$0 to fundraising costs. In 2020, the Organization allocated \$20,545 to program services, and \$13,118 to fund-raising costs.

NOTE 7—ADVERTISING:

Direct response advertising costs are expensed as incurred. Advertising costs in 2021 and 2020 were \$18,982 and \$20,156 respectively.

NOTE 8—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, 2021 and 2020 (CONTINUED)

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 September 30, 2021 and 2020. 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.

Investment securities activity for the years ended September 30, 2021 and 2020 is reflected in the following table:

	<u>2021</u>	<u>2020</u>
Fair value - beginning of the year	\$ 2,761,878	\$ 2,680,537
Income from investment securities	601,583	215,539
Investment management fees	(18,434)	(15,598)
Net capital additions (reductions)	<u>(118,300)</u>	<u>(118,600)</u>
Fair value - end of year	<u>\$ 3,226,727</u>	<u>\$ 2,761,878</u>

NOTE 10—PROPERTY AND EQUIPMENT:

Details of property and equipment at September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 97,415	\$ 97,415
Land improvements	30,339	30,339
Building and building improvements	521,925	521,925
Equipment and furniture	<u>77,634</u>	<u>77,634</u>
Subtotal	\$ 727,313	\$ 727,313
Less accumulated depreciation	<u>(356,466)</u>	<u>(329,137)</u>
Total	<u>\$ 370,847</u>	<u>\$ 398,176</u>

Depreciation expense for the years ended September 30, 2021 and September 30, 2020 totaled \$27,329 and \$27,832, respectively.

NOTE 11—NET ASSETS RELEASED FROM RESTRICTIONS:

During the years ended September 30, 2021 and September 30, 2020, no net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2021 and 2020 (CONTINUED)**

NOTE 12—NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Subject to the passage of time:		
Such time as the fractional interests in the charitable remainder unit trusts are received	\$ 699,483	\$ 696,531
Subject to organization spending policy and appropriation:		
Investment in perpetuity (including amounts above original gift amount of \$11,460), which, once appropriated, is expendable to support :		
Any activity of the organization	16,686	13,569
Total net assets with donor restrictions	<u>\$ 716,169</u>	<u>\$ 710,100</u>

NOTE 13—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 net assets with donor restrictions 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 two Rockbridge Area Hospice Funds, and grants from the funds 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 Funds, and because redemption value would be different than reported value, the valuation technique used by the Organization is a level 3 measure. The fair value of the Board Designated and Donor-Restricted Funds were \$14,225 and \$16,686, respectively, at September 30, 2021, representing a decrease in value of \$2,583 for the board designated fund and \$3,117 for the donor-restricted fund from the amounts reported at September 30, 2020. The Foundation provides a semi-annual report of the fair value of the Rockbridge Area Hospice Funds.

A reconciliation of the changes in beneficial interest in assets held by others for the years ended September 30, 2021 and 2020 is as follows:

	Charitable Remainder UniTrusts	Community Foundation for Rockbridge, Bath and Alleghany		Total
		Board Designated Endowment	Donor Restricted Endowment	
Balances at September 30, 2019	\$ 689,885	\$ 11,770	\$ 13,642	\$ 715,297
Change in value of beneficial interest	6,646	(128)	(73)	6,445
Balances at September 30, 2020	\$ 696,531	\$ 11,642	\$ 13,569	\$ 721,742
Change in value of beneficial interest	2,952	2,583	3,117	8,652
Balances at September 30, 2021	<u>\$ 699,483</u>	<u>\$ 14,225</u>	<u>\$ 16,686</u>	<u>\$ 730,394</u>

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2021 and 2020 (CONTINUED)**

NOTE 14—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 net assets with donor restrictions (a) the original value of gifts donated to the donor-restricted endowment fund, (b) the original value of subsequent gifts to the donor-restricted endowment fund, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. These funds remain in the net assets with donor restriction category of 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 donor-restricted endowment. Income earned on the donor-restricted endowment is considered to have restrictions that are temporary in nature since the earnings are available for future distribution. Distributions from the endowment are without donor restriction and can be used for any purpose to help the Organization accomplish its mission. Details of endowment net assets as of September 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 3,240,952	\$ -	\$ 3,240,952
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	11,460	11,460
Accumulated investment gains	-	5,226	5,226
Total funds	<u>\$ 3,240,952</u>	<u>\$ 16,686</u>	<u>\$ 3,257,638</u>

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,773,520	\$ 13,569	\$ 2,787,089
Investment return, net	583,149	-	583,149
Change in value of beneficial interests in assets held by others	2,583	3,117	5,700
Appropriation of endowment assets for expenditure	(118,300)	-	(118,300)
Endowment net assets, end of year	<u>\$ 3,240,952</u>	<u>\$ 16,686</u>	<u>\$ 3,257,638</u>

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2021 and 2020 (CONTINUED)**

NOTE 14—ENDOWMENT ASSETS: (CONTINUED)

Details of endowment net assets as of September 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 2,773,520	\$ -	\$ 2,773,520
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	11,460	11,460
Accumulated investment gains	-	2,109	2,109
Total funds	<u>\$ 2,773,520</u>	<u>\$ 13,569</u>	<u>\$ 2,787,089</u>

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 2,692,307	\$ 13,642	\$ 2,705,949
Investment return, net	199,941	-	199,941
Change in value of beneficial interests in assets held by others	(128)	(73)	(201)
Appropriation of endowment assets for expenditure	(118,600)	-	(118,600)
Endowment net assets, end of year	<u>\$ 2,773,520</u>	<u>\$ 13,569</u>	<u>\$ 2,787,089</u>

NOTE 15—LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:

The following reflects the Organization's financial assets as of September 30, 2021 and 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the statement of financial position date have not been subtracted as unavailable.

	September 30, 2021	September 30, 2020
Financial assets at year-end	\$ 5,792,640	\$ 4,364,433
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor to be held in perpetuity	(11,460)	(11,460)
Accumulated investment gains on donor-restricted endowment fund	(5,226)	(2,109)
Charitable remainder unitrusts	(699,483)	(696,531)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	<u>(3,122,652)</u>	<u>(2,655,220)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,953,819</u>	<u>\$ 999,113</u>

ROCKBRIDGE AREA HOSPICE, INC.

Notes to Financial Statements
September 30, 2021 and 2020 (CONTINUED)

NOTE 15—LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS: (CONTINUED)

The Organization is greatly supported by restricted contributions, as well as investment income from both restricted contributions and Board designated investments. Because these restrictions require resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors and Board. Thus, financial assets may not be available for general expenditure within one year.

In addition, the Organization's financial assets available within one year of the date of the statement financial position for general expenditures are as follows:

	September 30, 2021	September 30, 2020
Cash and cash equivalents	\$ 1,642,778	\$ 726,370
Accounts receivable	192,741	154,443
Quasi-endowment fund, appropriated for expenditure within one year	118,300	118,300
	<u>\$ 1,953,819</u>	<u>\$ 999,113</u>

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. During fiscal year 2021, the 1998 charitable remainder revocable unit trust was closed due to death of the donor and \$33,843 was paid out to the Organization. As of September 30, 2021, the Organization's share of the remaining trust amounted to \$46,299 in total and was still considered an intention to give to the Organization under the stipulations.

NOTE 17—COMPENSATED ABSENCES:

The Organization's employees earn annual leave at various rates. Accumulated vacation up to 80 hours is paid upon termination. As of September 30, 2021 and September 30, 2020, compensated absences amounted to \$37,223 and \$46,181, respectively.

NOTE 18—DISAGGREGATION OF ACCOUNTS RECEIVABLE AND REVENUE BY PAYOR:

The composition of patient service accounts receivable by payor for the years ended September 30, 2021 and 2020 are as follows:

	2021	2020
Medicare	\$ 187,344	\$ 125,431
Medicaid	413	13,456
Other third-party payors	4,984	15,556
Total	<u>\$ 192,741</u>	<u>\$ 154,443</u>

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2021 and 2020 (CONTINUED)**

**NOTE 18—DISAGGREGATION OF ACCOUNTS RECEIVABLE AND REVENUE BY PAYOR:
(CONTINUED)**

The composition of patient service revenue by payor for the years ended September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Medicare	\$ 1,861,134	\$ 1,583,419
Medicaid	45,144	55,586
Other third-party payors	20,576	60,052
Self-pay	-	2,319
Total	<u>\$ 1,926,854</u>	<u>\$ 1,701,376</u>

NOTE 19—PAYCHECK PROTECTION PROGRAM:

The organization received a conditional contribution under the Small Business Administration Paycheck Protection Program (PPP) on April 1, 2021, in the amount of \$323,880. The conditions of the PPP program were substantially met, and forgiveness of the entire balance was granted on August 3, 2021. The entire PPP contribution has been recognized in the year ended September 30, 2021.

NOTE 20—SUBSEQUENT EVENTS:

In preparing these financial statements, management of the Organization has evaluated events and transactions for potential recognition or disclosure through February 22, 2022, the date the financial statements were available to be issued.

As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact patient services. Other financial impact could occur though such potential impact is unknown at this time.

COMPLIANCE



**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 statements of financial position as of September 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 22, 2022.

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) as a basis for designing 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 financial statements. 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 22, 2022