



ROCKBRIDGE AREA HOSPICE, INC.

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2015



**ROCKBRIDGE AREA HOSPICE, INC.**

**FINANCIAL REPORT**

**YEAR ENDED SEPTEMBER 30, 2015**



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# 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, 2015, 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, 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 19, 2016, 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 19, 2016



**FINANCIAL STATEMENTS**



**ROCKBRIDGE AREA HOSPICE, INC.**  
**Statement of Financial Position**  
**September 30, 2015**  
**(With Comparative Totals for 2014)**

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 290,092	\$ 212,996
Accounts receivable, net of allowance of \$3,000 for 2015 and 2014	156,710	384,405
Contributions receivable	1,050	1,139
Prepaid expenses	3,574	4,386
Investment securities	2,421,536	2,091,174
Other assets	5,908	5,908
Beneficial interests in assets held by others	71,825	71,225
Total current assets	<u>\$ 2,950,695</u>	<u>\$ 2,771,233</u>
<b>Noncurrent Assets:</b>		
<b>Property and Equipment:</b>		
Land	\$ 97,415	\$ 97,415
Land improvements	30,339	28,125
Building and building improvements	513,530	511,715
Equipment and furniture	93,275	280,278
Total property and equipment	<u>\$ 734,559</u>	<u>\$ 917,533</u>
Less: Accumulated depreciation	(238,127)	(368,317)
Net property and equipment	<u>\$ 496,432</u>	<u>\$ 549,216</u>
Total noncurrent assets	<u>\$ 496,432</u>	<u>\$ 549,216</u>
Total assets	<u>\$ 3,447,127</u>	<u>\$ 3,320,449</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 72,330	\$ 80,357
Payroll taxes payable	15,669	11,438
Accrued salaries and wages	53,351	67,822
Accrued leave	40,320	34,136
Deferred revenue	2,500	4,800
Total liabilities	<u>\$ 184,170</u>	<u>\$ 198,553</u>
<b>Net Assets:</b>		
Unrestricted net assets	\$ 2,885,376	\$ 2,741,553
Temporarily restricted net assets	366,121	368,883
Permanently restricted net assets	11,460	11,460
Total net assets	<u>\$ 3,262,957</u>	<u>\$ 3,121,896</u>
Total liabilities and net assets	<u>\$ 3,447,127</u>	<u>\$ 3,320,449</u>

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

**ROCKBRIDGE AREA HOSPICE, INC.**  
**Statement of Activities**  
**Year Ended September 30, 2015**  
**(With Comparative Totals for 2014)**

Changes in Unrestricted Net Assets	<u>2015</u>	<u>2014</u>
Revenues and gains:		
Service fees	\$ 1,972,852	\$ 1,744,278
Contributions and grants	249,631	300,793
Investment income	94,013	20,183
Unrealized investment gain (loss)	(51,872)	157,635
Total revenues and gains	<u>\$ 2,264,624</u>	<u>\$ 2,222,889</u>
Net assets released from restrictions	<u>\$ 1,061</u>	<u>\$ 890</u>
Total revenues, gains, and other support	<u>\$ 2,265,685</u>	<u>\$ 2,223,779</u>
Expenses:		
Program Services:		
Patient and family services	\$ 1,298,239	\$ 1,345,512
Bereavement and volunteer programs	85,618	87,877
Public relations and other program costs	89,686	91,015
Supporting Services:		
Management and general	611,932	386,744
Fund-raising	36,387	51,855
Total expenses	<u>\$ 2,121,862</u>	<u>\$ 1,963,003</u>
Change in unrestricted net assets	<u>\$ 143,823</u>	<u>\$ 260,776</u>
Changes in temporarily restricted net assets		
Contributions	\$ -	\$ 4,500
Net investment earnings (expenses)	(2,301)	30,878
Change in value of beneficial interests in assets held by others	600	7,448
Net assets released from restrictions	(1,061)	(890)
Change in temporarily restricted net assets	<u>\$ (2,762)</u>	<u>\$ 41,936</u>
Change in net assets	<u>\$ 141,061</u>	<u>\$ 302,712</u>
Net assets at beginning of year	<u>3,121,896</u>	<u>2,819,184</u>
Net assets at end of year	<u><u>\$ 3,262,957</u></u>	<u><u>\$ 3,121,896</u></u>

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

**ROCKBRIDGE AREA HOSPICE, INC.**  
**Statement of Functional Expenses**  
**Year Ended September 30, 2015**  
**(With Comparative Totals for 2014)**

Expense	Program Services	Management and General	Fund Raising	Total September 30, 2015
Salaries	\$ 611,383	\$ 402,113	\$ 7,603	\$ 1,021,099
Payroll taxes	52,407	26,126	425	78,958
Fringe benefits	84,274	42,013	683	126,970
Medications	101,161	-	-	101,161
Durable medical equipment	91,228	-	-	91,228
Occupancy costs	16,294	8,123	132	24,549
Travel	39,471	814	407	40,692
Insurance	17,272	8,610	140	26,022
Communications	19,836	4,174	82	24,092
Administrative expenses	51,198	70,233	7,774	129,205
Fund-raising and development	7,236	-	16,884	24,120
Patient services	45,788	-	-	45,788
Supplies and postage	7,829	3,723	418	11,970
Equipment rent and maintenance	42,024	27,854	1,630	71,508
Depreciation	25,666	12,795	208	38,669
Nursing home and inpatient	252,304	-	-	252,304
Other expenses	8,172	5,354	1	13,527
Totals	<u>\$ 1,473,543</u>	<u>\$ 611,932</u>	<u>\$ 36,387</u>	<u>\$ 2,121,862</u>

Expense	Program Services	Management and General	Fund Raising	Total September 30, 2014
Salaries	\$ 651,833	\$ 239,802	\$ 10,544	\$ 902,179
Payroll taxes	53,173	15,456	669	69,298
Fringe benefits	91,521	26,602	1,151	119,274
Medications	94,300	-	-	94,300
Durable medical equipment	79,410	-	-	79,410
Occupancy costs	17,291	5,026	218	22,535
Travel	35,580	734	367	36,681
Insurance	20,043	5,826	252	26,121
Communications	17,021	2,008	82	19,111
Administrative expenses	33,836	44,032	8,907	86,775
Fund-raising and development	11,459	-	26,737	38,196
Patient services	28,926	-	-	28,926
Supplies and postage	9,731	2,897	642	13,270
Equipment rent and maintenance	54,649	21,657	1,613	77,919
Depreciation	52,712	15,321	663	68,696
Nursing home and inpatient	261,656	-	-	261,656
Other expenses	11,263	7,383	10	18,656
Totals	<u>\$ 1,524,404</u>	<u>\$ 386,744</u>	<u>\$ 51,855</u>	<u>\$ 1,963,003</u>

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

**ROCKBRIDGE AREA HOSPICE, INC.**  
**Statement of Cash Flows**  
**Year Ended September 30, 2015**  
**(With Comparative Totals for 2014)**

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 141,061	\$ 302,712
Adjustments to reconcile the change in net assets to net cash flows from operating activities:		
Realized loss (gain) on securities	(23,285)	6,106
Loss on disposal of property	21,682	-
Depreciation expense	38,669	68,696
Unrealized (gains) and losses and reinvested dividends	8,899	(191,471)
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	227,695	(274,042)
(Increase) decrease in contributions receivable	89	85
(Increase) decrease in prepaid expenses	812	22,204
Increase (decrease) in accounts payable	(8,027)	19,564
Increase (decrease) in payroll taxes payable	4,231	35,075
Increase (decrease) in accrued salaries and wages	(14,471)	3,787
Increase (decrease) in accrued leave	6,184	9,468
Increase (decrease) in deferred revenue	(2,300)	4,800
Net cash flows provided by (used for) operating activities	\$ 401,239	\$ 6,984
Cash flows from investing activities:		
Purchase of investment securities	\$ (315,976)	\$ (364,858)
Purchase of property and equipment	(7,567)	(3,929)
Change in beneficial interest in assets held by others	(600)	384,209
Net cash flows provided by (used for) investing activities	\$ (324,143)	\$ 15,422
Net change in cash and cash equivalents	\$ 77,096	\$ 22,406
Cash and cash equivalents at beginning of year	212,996	190,590
Cash and cash equivalents at end of year	\$ 290,092	\$ 212,996

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

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

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**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, 2015 and 2014 amounted to \$2,885,376 and \$2,741,553, 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, 2015 and 2014 amounted to \$366,121 and \$368,883, 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, 2015 and 2014 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, 2015 (CONTINUED)

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**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 two 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, 2015 (CONTINUED)

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**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. 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, 2015 and 2014 the Organization had no deposits in excess of the insured amount. Short-term investments consist of a bank money market account, used for a working capital facility.

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, 2015 and 2014 was \$3,000.

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 (CONTINUED)

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**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.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 (CONTINUED)

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**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.

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, 2015 and 2014 was \$15,360 and \$16,360, respectively.

**NOTE 5—LEASES:**

The Organization has office equipment lease payables monthly at \$299 and quarterly at \$155. Rent expense for office equipment for the years ended September 30, 2015 and 2014 were \$5,622 and \$5,782, respectively. The future minimum rents payable are 2016 - \$3,588 and 2017 - \$3,588.

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 (CONTINUED)

**NOTE 6—ALLOCATION OF JOINT COSTS:**

The Organization incurred joint costs of \$48,931 and \$59,825 in 2015 and 2014 for informational materials and activities that included fund-raising appeals. In 2015, the Organization allocated \$24,417 to program services, and \$24,514 to fund-raising costs. In 2014, the Organization allocated \$24,226 to program services, and \$35,599 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.

**NOTE 8—CONTRIBUTIONS RECEIVABLE:**

Contributions receivable of \$1,050 have been reported in the accompanying statement of financial position at present value of the expected future cash flows at September 30, 2015.

**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, 2015. 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.

Fair values of assets measured on a recurring basis at September 30, 2015 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value at 9/30/15	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	\$ 102,802	\$ 102,802	\$ -	\$ -
Corporate bonds	610,898	-	610,898	-
Government bonds	245,772	-	245,772	-
Mutual funds	1,462,064	1,462,064	-	-
Beneficial interest in assets held by others	71,825	-	-	71,825
Total	\$ 2,493,361	\$ 1,564,866	\$ 856,670	\$ 71,825

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 (CONTINUED)

**NOTE 9—INVESTMENT SECURITIES: (CONTINUED)**

Fair values of assets measured on a recurring basis at September 30, 2014 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value at 9/30/14	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	\$ 34,171	\$ 34,171	\$ -	\$ -
Corporate bonds	410,497	-	410,497	-
Government bonds	187,830	-	187,830	-
Mutual funds	1,458,676	1,458,676	-	-
Beneficial interest in assets held by others	71,225	-	-	71,225
Total	<u>\$ 2,162,399</u>	<u>\$ 1,492,847</u>	<u>\$ 598,327</u>	<u>\$ 71,225</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.

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

	2015	2014
Interest and dividends	\$ 66,252	\$ 55,131
Realized (losses) gains	23,285	(6,106)
Unrealized (losses) gains	(51,872)	157,635
Income from investment securities	\$ 37,665	\$ 206,660
Interest on short-term cash investments	2,175	2,036
Net investment income	\$ 39,840	\$ 208,696
Adjustment for:		
Unrealized losses (gains)	51,872	(157,635)
Investment income	<u>\$ 91,712</u>	<u>\$ 51,061</u>

Investment securities activity for the years ended September 30, 2015 and 2014 is reflected in the following table:

	2015	2014
Fair value - beginning of the year	\$ 2,091,174	\$ 1,540,951
Income from investment securities	37,665	206,660
Investment management fees	(23,279)	(21,295)
Net capital additions	315,976	364,858
Fair value - end of year	<u>\$ 2,421,536</u>	<u>\$ 2,091,174</u>

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 (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>2015</u>	<u>2014</u>
Connections	\$ 979	\$ 871
The Journey Continues program	82	19
Total	<u>\$ 1,061</u>	<u>\$ 890</u>

**NOTE 11—TEMPORARILY RESTRICTED NET ASSETS:**

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Patient care	\$ 362	\$ 362
Connections	2,650	3,629
Charitable remainder unit trusts	50,648	48,423
Endowments	312,461	316,387
The Journey Continues program	-	82
Total	<u>\$ 366,121</u>	<u>\$ 368,883</u>

**NOTE 12—PROPERTY AND EQUIPMENT:**

Details of property and equipment at September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 97,415	\$ 97,415
Land improvements	30,339	28,125
Building and building improvements	513,530	511,715
Equipment and furniture	93,275	280,278
Subtotal	<u>\$ 734,559</u>	<u>\$ 917,533</u>
Less accumulated depreciation	(238,127)	(368,317)
Total	<u>\$ 496,432</u>	<u>\$ 549,216</u>

Depreciation expense for the fiscal year totaled \$38,669.

**NOTE 13—ADVERTISING:**

Direct response advertising costs are expensed as incurred. Advertising costs in 2015 and 2014 were \$13,206 and \$7,124, respectively.

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 (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. These resources are neither in the possession of nor under the control of 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 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 Foundation has a Rockbridge Area Hospice Fund and grants from it are designated solely for serving the charitable, educational and public purpose for the benefit of Rockbridge County, the City of Lexington and surrounding areas. The fair value of the Fund was \$21,177 at September 30, 2015, representing a decrease in value of \$1,625 at September 30, 2015. The Community Foundation for Rockbridge, Bath and Alleghany provides a quarterly report of the fair value of the Rockbridge Area Hospice Fund. 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.

A reconciliation of the changes in beneficial interest in assets held by others for the years ended September 30, 2015 and 2014 are as follows:

	Charitable Remainder Unit Trusts	Community Foundation for Rockbridge, Bath and Alleghany	Total
Balances at September 30, 2014	\$ 48,423	\$ 22,802	\$ 71,225
Change in value of beneficial interest	2,225	(1,625)	600
Balances at September 30, 2015	<u>\$ 50,648</u>	<u>\$ 21,177</u>	<u>\$ 71,825</u>

ROCKBRIDGE AREA HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 (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 State Prudent Management of Institutional Funds Act (SPMIFA) 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 SPMIFA. In accordance with SPMIFA, 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	\$ -	\$ 312,461	\$ 11,460	\$ 323,921
Board designated endowment funds	1,221,184	-	-	1,221,184
	<u>\$ 1,221,184</u>	<u>\$ 312,461</u>	<u>\$ 11,460</u>	<u>\$ 1,545,105</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at 9/30/14	\$ 1,170,378	\$ 316,387	\$ 11,460	\$ 1,498,225
Contributions from donor	-	-	-	-
Interest/dividends earned	31,685	7,930	-	39,615
Unrealized gains/losses	(42,926)	(12,775)	-	(55,701)
Account advisor fees	(14,918)	(3,768)	-	(18,686)
Realized gains/losses	18,728	4,687	-	23,415
Net deposits/withdrawals	58,237	-	-	58,237
Endowment net assets at 9/30/15	<u>\$ 1,221,184</u>	<u>\$ 312,461</u>	<u>\$ 11,460</u>	<u>\$ 1,545,105</u>



**ROCKBRIDGE AREA HOSPICE, INC.**

**NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015 (CONTINUED)**

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**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 unitrust 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, 2015, the Organization's share of both trusts amounted to \$96,290 in total and was still considered intentions to give to the Organization under these stipulations.

**NOTE 17—SUBSEQUENT EVENTS:**

The Organization has evaluated subsequent events for disclosure and recognition through February 19, 2016, the date which these financial statements were available to be issued.



# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## 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

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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, 2015, 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 19, 2016.

### 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 19, 2016

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## Communication with Those Charged with Governance

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To the Board of Directors  
Rockbridge Area Hospice, Inc.

We have audited the financial statements of Rockbridge Area Hospice, Inc. for the year ended September 30, 2015 and have issued our report thereon dated February 19, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 1, 2015. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Rockbridge Area Hospice, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation expense is based on established guidelines and experience. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. As a result of our audit procedures, we discovered one instance where an adjusting journal entry was necessary to correct a material misstatement. This adjustment was related to the disposal of a fixed asset. Management has corrected this misstatement.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 19, 2016.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

This information is intended solely for the use of the Board and management of Rockbridge Area Hospice, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

*Robinson, Famer, Cox Associates*

Staunton, Virginia  
February 19, 2016