



ROCKBRIDGE AREA HOSPICE, INC.

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2019 AND 2018

ROCKBRIDGE AREA HOSPICE, INC.

FINANCIAL REPORT

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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 statement of financial position as of September 30, 2019 and 2018, 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, 2019 and 2018, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2020, 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 3, 2020

FINANCIAL STATEMENTS

ROCKBRIDGE AREA HOSPICE, INC.
Statement of Financial Position
September 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and cash equivalents	\$ 288,938	\$ 229,799
Accounts receivable, net of allowance of \$10,500 and \$3,000 for 2019 and 2018, respectively	171,375	227,236
Prepaid expenses	28,476	21,348
Investment securities	2,680,537	2,668,475
Other assets	5,908	5,908
Beneficial interests in assets held by others	715,297	710,790
Total current assets	<u>\$ 3,890,531</u>	<u>\$ 3,863,556</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>
Less: Accumulated depreciation	<u>(301,305)</u>	<u>(272,396)</u>
Net property and equipment	<u>\$ 426,008</u>	<u>\$ 454,917</u>
Total noncurrent assets	<u>\$ 426,008</u>	<u>\$ 454,917</u>
Total assets	<u><u>\$ 4,316,539</u></u>	<u><u>\$ 4,318,473</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 27,286	\$ 86,187
Payroll taxes payable	-	77
Accrued salaries and wages	61,196	60,644
Accrued leave	38,910	49,023
Unearned revenue	-	41,490
Total current liabilities	<u>\$ 127,392</u>	<u>\$ 237,421</u>
Total liabilities	<u>\$ 127,392</u>	<u>\$ 237,421</u>
Net Assets:		
Without donor restrictions	\$ 3,485,620	\$ 3,379,408
With donor restrictions	703,527	701,644
Total net assets	<u>\$ 4,189,147</u>	<u>\$ 4,081,052</u>
Total liabilities and net assets	<u><u>\$ 4,316,539</u></u>	<u><u>\$ 4,318,473</u></u>

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

ROCKBRIDGE AREA HOSPICE, INC.
Statement of Activities
Year Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in net assets without donor restrictions:		
Revenues and gains:		
Service fees	\$ 1,841,978	\$ 2,045,864
Contributions and grants	451,128	318,587
Operating interest income	546	587
Investment return, net	129,462	152,781
Change in value of beneficial interests in assets held by others	2,624	15
Gain (loss) on disposal of fixed asset	-	(582)
Total revenues and gains	<u>\$ 2,425,738</u>	<u>\$ 2,517,252</u>
Expenses:		
Program services:		
Patient and family services	\$ 1,695,767	\$ 1,775,261
Bereavement and volunteer programs	-	29,395
Public relations and other program costs	137,726	104,439
Supporting services:		
Management and general	436,967	513,692
Fundraising	49,066	36,716
Total expenses	<u>\$ 2,319,526</u>	<u>\$ 2,459,503</u>
Change in net assets without donor restrictions	<u>\$ 106,212</u>	<u>\$ 57,749</u>
Changes in net assets with donor restrictions:		
Change in value of beneficial interests in assets held by others	<u>\$ 1,883</u>	<u>\$ 13,058</u>
Change in net assets with donor restrictions	<u>\$ 1,883</u>	<u>\$ 13,058</u>
Change in net assets	\$ 108,095	\$ 70,807
Net assets at beginning of year	<u>4,081,052</u>	<u>4,010,245</u>
Net assets at end of year	<u><u>\$ 4,189,147</u></u>	<u><u>\$ 4,081,052</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, 2019 and 2018

Expense	Program Services			Supporting Services		September 30, 2019
	Patient and Family Services	Bereavement and Volunteer Programs	Public Relations and other Program Costs	Management and General	Fund-Raising	
Salaries	\$ 921,560	\$ -	\$ 65,915	\$ 307,696	\$ 6,243	\$ 1,301,414
Payroll taxes	66,216	-	4,737	22,112	449	93,514
Fringe benefits	119,607	-	8,556	39,941	810	168,914
Medications	103,819	-	-	-	-	103,819
Durable medical equipment	95,702	-	-	-	-	95,702
Occupancy costs	13,053	-	934	4,359	88	18,434
Travel	-	-	1,172	1,055	117	2,344
Insurance	26,990	-	1,931	9,013	183	38,117
Communications	15,474	-	694	3,238	66	19,472
Administrative expenses	10,640	-	31,339	29,330	13,392	84,701
Fundraising and development	-	-	11,316	-	26,405	37,721
Patient services	104,689	-	-	-	-	104,689
Supplies and postage	9,842	-	2,117	3,213	926	16,098
Equipment rent and maintenance	37,661	-	874	6,446	146	45,127
Depreciation	20,470	-	1,464	6,836	139	28,909
Nursing home and inpatient	142,956	-	-	-	-	142,956
Other expenses	7,088	-	6,677	3,728	102	17,595
Totals	\$ 1,695,767	\$ -	\$ 137,726	\$ 436,967	\$ 49,066	\$ 2,319,526

Expense	Program Services			Supporting Services		Total September 30, 2018
	Patient and Family Services	Bereavement and Volunteer Programs	Public Relations and other Program Costs	Management and General	Fund-Raising	
Salaries	\$ 856,708	\$ 17,773	\$ 43,335	\$ 369,428	\$ 4,194	\$ 1,291,438
Payroll taxes	62,964	1,307	3,186	27,158	308	94,923
Fringe benefits	112,700	2,339	5,701	48,609	552	169,901
Medications	120,467	-	-	-	-	120,467
Durable medical equipment	104,995	-	-	-	-	104,995
Occupancy costs	17,975	470	841	7,285	74	26,645
Travel	2,157	55	109	274	137	2,732
Insurance	26,055	541	1,318	11,238	128	39,280
Communications	18,812	183	447	3,810	43	23,295
Administrative expenses	13,095	32	38,694	18,552	13,701	84,074
Fund-raising and development	-	-	7,059	-	16,471	23,530
Patient services	111,404	-	-	-	-	111,404
Supplies and postage	7,494	859	1,420	3,282	751	13,806
Equipment rent and maintenance	42,019	381	845	9,189	159	52,593
Depreciation	19,760	410	999	8,523	97	29,789
Nursing home and inpatient	249,720	-	-	-	-	249,720
Other expenses	8,936	5,045	485	6,344	101	20,911
Totals	\$ 1,775,261	\$ 29,395	\$ 104,439	\$ 513,692	\$ 36,716	\$ 2,459,503

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

ROCKBRIDGE AREA HOSPICE, INC.
Statement of Cash Flows
Year Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 108,095	\$ 70,807
Adjustments to reconcile the change in net assets to net cash flows from operating activities:		
Investment return, net	(129,462)	(152,781)
(Gain) loss on disposal of property	-	582
Depreciation expense	28,909	29,789
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	55,861	(31,092)
(Increase) decrease in grants receivable	-	21,000
(Increase) decrease in prepaid expenses	(7,128)	(5,616)
Increase (decrease) in accounts payable	(58,901)	29,837
Increase (decrease) in payroll taxes payable	(77)	(12,868)
Increase (decrease) in accrued salaries and wages	552	35,612
Increase (decrease) in accrued leave	(10,113)	(1,663)
Increase (decrease) in deferred revenue	(41,490)	41,490
Net cash flows provided by (used for) operating activities	<u>\$ (53,754)</u>	<u>\$ 25,097</u>
Cash flows from investing activities:		
Net (deposits) withdrawals to/from investment accounts	\$ 117,400	\$ 143,706
Purchase of property and equipment	-	(11,311)
Change in beneficial interest in assets held by others	(4,507)	(13,073)
Net cash flows provided by (used for) investing activities	<u>\$ 112,893</u>	<u>\$ 119,322</u>
Net change in cash and cash equivalents	\$ 59,139	\$ 144,419
Cash and cash equivalents at beginning of year	<u>\$ 229,799</u>	<u>\$ 85,380</u>
Cash and cash equivalents at end of year	<u><u>\$ 288,938</u></u>	<u><u>\$ 229,799</u></u>

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

ROCKBRIDGE AREA HOSPICE, INC.

Notes to Financial Statements September 30, 2019 and 2018

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, 2019 and 2018 amounted to \$3,485,620 and \$3,379,408, 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, 2019 and 2018 amounted to \$703,527 and \$701,644, 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, 2019 and 2018 (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, 2019 and 2018 (CONTINUED)

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

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.

Unearned Revenue

Unearned revenue consists of Medicaid claims received by the Organization which were subsequently retracted by Medicaid. Unearned revenue amounted to \$0, and \$41,490 as of September 30, 2019 and September 31, 2018, 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

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, 2019, the Organization had \$24,245 in uninsured cash. At September 30, 2018, the Organization had no deposits in excess of the insured amount.

Use of Estimates

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

Accounts Receivable

Accounts receivable are unsecured, non-interest bearing amounts due from Medicare, Medicaid, third party insurance companies and private sources. Allowance for doubtful accounts for the years ended September 30, 2019 and 2018 was \$10,500 and \$3,000, respectively.

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.

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2019 and 2018 (CONTINUED)**

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

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 “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.

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2019 and 2018 (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 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, 2019 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	Fair Value at 9/30/19	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	\$ 58,319	\$ 58,319	\$ -	\$ -
Equity securities	2,622,218	2,622,218	-	-
Beneficial interest in assets held by others	715,297	-	-	715,297
Total	<u>\$ 3,395,834</u>	<u>\$ 2,680,537</u>	<u>\$ -</u>	<u>\$ 715,297</u>

Fair values of assets measured on a recurring basis at September 30, 2018 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	Fair Value at 9/30/18	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	\$ 4,853	\$ 4,853	\$ -	\$ -
Corporate bonds	356,450	-	356,450	-
Government bonds	324,059	-	324,059	-
Equity securities	100,527	100,527	-	-
Mutual funds	1,882,586	1,882,586	-	-
Beneficial interest in assets held by others	710,790	-	-	710,790
Total	<u>\$ 3,379,265</u>	<u>\$ 1,987,966</u>	<u>\$ 680,509</u>	<u>\$ 710,790</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, 2019 and 2018 (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 14).

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, 2019 and 2018 was \$20,405 and \$26,072, respectively.

NOTE 5—LEASES:

The Organization has office equipment leases payable monthly at \$563. Rent expense for office equipment for the years ended September 30, 2019 and 2018 were \$7,468 and \$8,220, respectively. The future minimum rents payable are \$6,756 for 2020.

NOTE 6—ALLOCATION OF JOINT COSTS:

The Organization incurred joint costs of \$78,027 and \$68,530 in 2019 and 2018 for informational materials and activities that included fundraising appeals. In 2019, the Organization allocated \$38,276 to program services, and \$39,751 to fundraising costs. In 2018, the Organization allocated \$38,365 to program services, and \$30,165 to fund-raising costs.

NOTE 7—ADVERTISING:

Direct response advertising costs are expensed as incurred. Advertising costs in 2019 and 2018 were \$25,053 and \$30,508, 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, 2019 and 2018 (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, 2019 and 2018. 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, 2019 and 2018 is reflected in the following table:

	<u>2019</u>	<u>2018</u>
Fair value - beginning of the year	\$ 2,668,475	\$ 2,659,400
Income from investment securities	152,250	176,176
Investment management fees	(22,788)	(23,395)
Net capital additions (reductions)	(117,400)	(143,706)
Fair value - end of year	<u>\$ 2,680,537</u>	<u>\$ 2,668,475</u>

NOTE 10—PROPERTY AND EQUIPMENT:

Details of property and equipment at September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
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
Subtotal	<u>\$ 727,313</u>	<u>\$ 727,313</u>
Less accumulated depreciation	<u>(301,305)</u>	<u>(272,396)</u>
Total	<u>\$ 426,008</u>	<u>\$ 454,917</u>

Depreciation expense for the fiscal year totaled \$28,909.

NOTE 11—NET ASSETS RELEASED FROM RESTRICTIONS:

During the year ended September 30, 2019, no net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

NOTE 12—BOARD-DESIGNATED NET ASSETS:

The Board-designated net assets consist of the board designated endowment fund which is held as a strategic reserve. Board designated net assets as of September 30, 2019 and 2018 amounted to \$2,692,307 and \$2,677,621, respectively.

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2019 and 2018 (CONTINUED)**

NOTE 13—NET ASSETS WITH DONOR RESTRICTIONS:

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

	<u>2019</u>	<u>2018</u>
Subject to the passage of time:		
Such time as the fractional interests in the charitable remainder unit trusts are received	\$ 689,885	\$ 688,556
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	<u>13,642</u>	<u>13,088</u>
Total net assets with donor restrictions	<u>\$ 703,527</u>	<u>\$ 701,644</u>

NOTE 14—BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS:

The Organization has been named as an 8.34% residual beneficiary of two charitable remainder unit trusts, and a 5% residual beneficiary of one charitable remainder unit trust. These resources are neither in the possession of nor under the control of the Organization. The trustee has advised the fair value of the fractional interests received. Primary trust beneficiaries receive current cash distributions. The Organization has recorded the receipt of these remainder interests and subsequent changes in the fair value as 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 \$11,770 and \$13,642, respectively at September 30, 2019, representing an increase in value of \$2,624 for the board designated fund and \$554 for the donor-restricted fund from the amounts reported at September 30, 2018. 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, 2019 and 2018 is as follows:

	Charitable Remainder UniTrusts	Community Foundation for Rockbridge, Bath and Alleghany		Total
		Board Designated Endowment	Donor Restricted Endowment	
Balances at September 30, 2017	\$ 675,903	\$ 9,131	\$ 12,683	\$ 697,717
Change in value of beneficial interest	12,653	15	405	13,073
Balances at September 30, 2018	\$ 688,556	\$ 9,146	\$ 13,088	\$ 710,790
Change in value of beneficial interest	1,329	2,624	554	4,507
Balances at September 30, 2019	<u>\$ 689,885</u>	<u>\$ 11,770</u>	<u>\$ 13,642</u>	<u>\$ 715,297</u>

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2019 and 2018 (CONTINUED)**

NOTE 15—ENDOWMENT ASSETS:

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

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as 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 current year endowment net assets are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 2,692,307	\$ -	\$ 2,692,307
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	-	2,182	2,182
Total funds	<u>\$ 2,692,307</u>	<u>\$ 13,642</u>	<u>\$ 2,705,949</u>

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,677,621	\$ 13,088	\$ 2,690,709
Investment return, net	129,462	-	129,462
Contributions	-	-	-
Change in value of beneficial interests in assets held by others	2,624	554	3,178
Appropriation of endowment assets for expenditure	(117,400)	-	(117,400)
Endowment net assets, end of year	<u>\$ 2,692,307</u>	<u>\$ 13,642</u>	<u>\$ 2,705,949</u>

ROCKBRIDGE AREA HOSPICE, INC.

**Notes to Financial Statements
September 30, 2019 and 2018 (CONTINUED)**

NOTE 16—AVAILABILITY OF FINANCIAL ASSETS:

The following reflects the Organization's financial assets as of September 30, 2019 and 2018, 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, 2019	September 30, 2018
Financial assets at year-end	\$ 3,856,147	\$ 3,836,300
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	(2,182)	(1,628)
Charitable remainder unitrusts	(689,885)	(688,556)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	(2,573,707)	(2,560,221)
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>578,913</u>	\$ <u>574,435</u>

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, 2019	September 30, 2018
Cash and cash equivalents	\$ 288,938	\$ 229,799
Accounts receivable	171,375	227,236
Quasi-endowment fund, appropriated for expenditure within one year	118,600	117,400
	\$ <u>578,913</u>	\$ <u>574,435</u>

NOTE 17—INTENTIONS TO GIVE:

In 1996, the Organization received a pledge of one charitable remainder revocable trust. The Organization also received a pledge of one charitable remainder revocable unit trust in 1998. The provisions of both trusts stipulate that the funds are not to be paid to the Organization until the death of the donors. As of September 30, 2019, the Organization's share of both trusts amounted to \$84,213 in total and was still considered intentions to give to the Organization under these stipulations.

NOTE 18—SUBSEQUENT EVENTS:

In December, the Organization was notified that they were a 1/5th beneficiary of an estate that may be valued at more than \$4,000,000. After expenses, it is estimated that the Organization will receive over \$700,000.

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 statement of financial position as of September 30, 2019 and 2018, 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 3, 2020.

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 3, 2020