

Příloha 1: Účetní závěrka organizace Hospice of Palm Beach County, Inc.

HOSPICE OF PALM BEACH COUNTY, INC.
West Palm Beach, Florida

FINANCIAL STATEMENTS
September 30, 2013 and 2012

HOSPICE OF PALM BEACH COUNTY, INC.
West Palm Beach, Florida

FINANCIAL STATEMENTS
September 30, 2013 and 2012

CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
BALANCE SHEETS.....	3
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS.....	4
STATEMENTS OF CASH FLOWS.....	5
NOTES TO FINANCIAL STATEMENTS.....	6

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hospice of Palm Beach County, Inc.
West Palm Beach, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Hospice of Palm Beach County, Inc. ("HPBC") which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospice of Palm Beach County, Inc. as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

South Bend, Indiana
December 16, 2013

HOSPICE OF PALM BEACH COUNTY, INC.
BALANCE SHEETS
September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,465,860	\$ 4,202,497
Patient accounts receivable, net	8,660,390	6,377,978
Due from affiliates	-	4,414,714
Other current assets	<u>799,771</u>	<u>933,342</u>
Total current assets	11,926,021	15,928,531
Interest in net assets of Hospice Foundation of Palm Beach County, Inc. ("HFPBC")	18,699,995	17,225,357
Property and equipment, net	22,302,622	23,781,519
Deferred financing costs, net	<u>142,282</u>	<u>150,190</u>
	<u><u>\$ 53,070,920</u></u>	<u><u>\$ 57,085,597</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 63,165	\$ 1,576,368
Accrued payroll and benefits	3,524,111	3,424,103
Accrued expenses and other current liabilities	1,956,189	1,887,557
Due to affiliates	<u>3,313,254</u>	<u>1,015,122</u>
Total current liabilities	8,856,719	7,903,150
Long-term debt	<u>12,000,000</u>	<u>12,000,000</u>
	<u>20,856,719</u>	<u>19,903,150</u>
Net assets		
Unrestricted	11,817,632	17,767,892
Temporarily restricted	<u>20,396,569</u>	<u>19,414,555</u>
	<u>32,214,201</u>	<u>37,182,447</u>
	<u><u>\$ 53,070,920</u></u>	<u><u>\$ 57,085,597</u></u>

See accompanying notes to financial statements.

HOSPICE OF PALM BEACH COUNTY, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted net assets		
Revenues and other support		
Net patient service revenues	\$ 88,444,643	\$ 87,644,487
Grants from HPBC Foundation	2,326,635	3,761,172
Net assets released from restrictions	<u>1,392,624</u>	<u>890,801</u>
	92,163,902	92,296,460
Expenses		
Payroll and related	66,491,082	62,793,057
Patient related expenses	12,677,025	13,266,621
Occupancy and equipment	13,480,774	11,581,688
Other operating expenses	<u>5,351,330</u>	<u>4,896,941</u>
	<u>98,000,211</u>	<u>92,538,307</u>
Change in unrestricted net assets from operations	(5,836,309)	(241,847)
Nonoperating revenues (expenses)		
Investment loss, net of fees	-	(1,072)
Other non operating revenues	9,996	46,714
Bond interest and other fees	<u>(123,947)</u>	<u>(146,335)</u>
	<u>(113,951)</u>	<u>(100,693)</u>
Change in unrestricted net assets	(5,950,260)	(342,540)
Temporarily restricted net assets		
Grants and contributions	900,000	550,000
Change in interest in net assets of HFPBC	1,474,638	1,766,700
Net assets released from restrictions	<u>(1,392,624)</u>	<u>(890,801)</u>
Change in temporarily restricted net assets	982,014	1,425,899
Transfer to parent	<u>-</u>	<u>(9,000,000)</u>
Change in net assets	(4,968,246)	(7,916,641)
Net assets at beginning of year	<u>37,182,447</u>	<u>45,099,088</u>
Net assets at end of year	<u><u>\$ 32,214,201</u></u>	<u><u>\$ 37,182,447</u></u>

See accompanying notes to financial statements.

HOSPICE OF PALM BEACH COUNTY, INC.
STATEMENTS OF CASH FLOWS
Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ (4,968,246)	\$ (7,916,641)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	3,508,623	2,774,954
Provision for uncollectible accounts	1,691,999	1,254,645
Loss on disposal of property and equipment	-	93,670
Change in interest in net assets of HFPBC	(1,474,638)	(1,766,700)
Transfer to parent	-	9,000,000
Changes in assets and liabilities		
Patient accounts receivable	(3,974,411)	(2,989,269)
Other current assets	133,571	554,343
Accounts payable	(1,513,203)	741,493
Accrued payroll and benefits	100,008	(162,680)
Accrued expenses and other current liabilities	68,632	(716,063)
Due to/from affiliates, net	<u>6,712,846</u>	<u>6,753,321</u>
Net cash from operating activities	285,181	7,621,073
Cash flows from investing activities		
Proceeds from sales of investments	-	1,136
Purchases of property and equipment	<u>(2,021,818)</u>	<u>(3,409,720)</u>
Net cash from investing activities	(2,021,818)	(3,408,584)
Cash flows from financing activities		
Transfer to parent	<u>-</u>	<u>(9,000,000)</u>
Net cash from financing activities	<u>-</u>	<u>(9,000,000)</u>
Net change in cash and cash equivalents	(1,736,637)	(4,787,511)
Cash and cash equivalents at beginning of year	<u>4,202,497</u>	<u>8,990,008</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,465,860</u></u>	<u><u>\$ 4,202,497</u></u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 15,513	\$ 20,886
Noncash investing and financing activities		
Transfer of the following assets and liabilities to satisfy amounts due to/from affiliates:		
Investments	\$ -	\$ 541,679
Property and equipment	-	546,506

See accompanying notes to financial statements.

HOSPICE OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Hospice of Palm Beach County, Inc. ("HPBC") is a non-stock, not-for-profit corporation organized in Florida. HPBC provides a coordinated, comprehensive program including physical, psychosocial, spiritual, music, and bereavement support to terminally ill patients and their families in Palm Beach and Broward Counties, Florida.

Affiliated Entities: HPBC's sole member is TrustBridge, Inc. ("TrustBridge"), a non-stock, not-for-profit corporation organized in Florida. During the year ended September 30, 2013, Spectrum Health, Inc. changed its name to TrustBridge, Inc. TrustBridge is also a holding company (and sole member) for the following affiliates:

- Hospice of Palm Beach County Foundation, Inc. ("HPBC Foundation")
- South Florida Palliative Medicine Specialists, Inc. ("SFPMS")
- The Medical Store of Palm Beach County, Inc. ("TMS"), discontinued as of January 2012
- Hospice Partners On Call, Inc. ("HPOC"), discontinued as of October 2011

Collectively, HPBC, HPBC Foundation, SFPMS, TMS, and HPOC are referred to as the TrustBridge Affiliates.

Effective September 12, 2013, TrustBridge entered into an agreement with Hospice By the Sea, Inc. ("HBTS") whereby TrustBridge will become the sole member of HBTS, anticipated to be effective January 1, 2014. As a result of the agreement, TrustBridge will effectively offer a coordinated, comprehensive continuum of care for those who struggle with progressive illness.

Basis of Presentation: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial Statement Presentation: The financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted net assets represent the part of the net assets of HPBC that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent the part of the net assets of HPBC resulting from contributions and other inflows of assets whose use by HPBC is limited by donor-imposed stipulations that either expire by the passage of time or by actions of HPBC. For the years ended September 30, 2013 and 2012, the temporarily restricted net assets are primarily restricted for patient-related care and therapeutic activities, in addition to the interest in net assets of HPBC. All temporarily restricted net assets released from restriction relate to patient-related care and therapeutic activities.

Permanently restricted net assets represent the part of the net assets of HPBC resulting from contributions and other inflows of assets whose use by HPBC is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of HPBC. For the years ended September 30, 2013 and 2012, HPBC has no permanently restricted net assets.

(Continued)

HOSPICE OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

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

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These estimates and assumptions may change in the near future resulting in different actual results.

Cash and Cash Equivalents: Cash and cash equivalents may exceed federally insured limits. Additionally, for purposes of the statements of cash flows, HPBC considers all highly liquid investments of operating cash purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable: The accounts receivable balance represents the unpaid amounts billed to patients and third-party payors. Contractual adjustments, discounts, and an allowance for uncollectible accounts are recorded to report receivables at net realizable value. Past due receivables are determined based on contractual terms. HPBC does not accrue interest on any of its accounts receivable.

Allowance for Uncollectible Accounts: The allowance for uncollectible accounts is determined by management based on HPBC's historical losses, specific patient circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have failed in accordance with HPBC's collection policy. Management believes the allowance of \$597,089 and \$837,580 as of September 30, 2013 and 2012, respectively, is adequate to cover potential losses from uncollectible accounts.

Interest in Net Assets of HFPBC: The interest in net assets of HFPBC is valued at fair value in the balance sheets. See Notes 11 and 12 for additional information.

Property and Equipment: Property and equipment are stated at cost or, if donated to HPBC, at fair value on the date of acquisition. Additions and improvements over \$5,000 are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets which range from three to thirty years and is computed on the straight-line method. All leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets.

Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The cost of property and equipment sold or otherwise disposed of and the accumulated depreciation applicable thereto are eliminated from the accounts, and any resulting gain or loss is reflected in the financial statements in the period of disposition.

Impairment of Long-Lived Assets: On an ongoing basis, HPBC reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. HPBC considers potential impairment losses to exist if the undiscounted cash flow expected to be generated by the assets are less than carrying value. The impairment loss adjusts the assets to fair value. As of September 30, 2013 and 2012, management believes that no impairments exist.

(Continued)

HOSPICE OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

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

Deferred Financing Costs: Costs associated with the issuance of the bonds have been deferred and are being amortized on the straight-line method, which approximates the effective interest method, over the life of the related debt.

Net Patient Service Revenues: Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Hospice organizations are subject to two specific payment limit caps under the Medicare program. One limit relates to inpatient care days that exceed 20% of the total days of hospice care provided for the year. HPBC did not exceed the 20% cap related to inpatient days in 2013 or 2012. The second limit relates to an aggregate Medicare reimbursement cap calculated by the Medicare fiscal intermediary. HPBC did not exceed the Medicare reimbursement cap for the years ended September 30, 2013 or 2012.

Charity Care: HPBC determines each patient's ability to pay during the admission process. When a patient meets certain criteria, part or all of the patient's charges are deemed charity care and are not billed for collection. Because HPBC does not pursue collection of amounts determined to qualify as charity care, those amounts are excluded from net patient service revenue. The cost of charity care provided was approximately \$919,000 and \$1,215,000 for the years ended September 30, 2013 and 2012, respectively. This cost estimate was based on the organization-wide cost to charge ratio.

Change in Unrestricted Net Assets: The statements of operations and changes in net assets present HPBC's performance indicator as the change in unrestricted net assets, which excludes the transfer to parent.

Fair Value of Financial Instruments: The fair values of financial instruments, which include cash, accounts receivable, interest in net assets of HFPBC, accounts payable, and long-term debt, are based on a variety of factors. In some cases, fair values represent quoted market prices for identical or comparable instruments (Level 1 inputs - market approach). In other cases, fair values have been estimated based on assumptions about the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of risk (Level 2 inputs - income approach). Accordingly, the fair values may not represent actual values that could have been realized at year-end or that will be realized in the future. All other financial instruments' carrying values approximate fair value as of September 30, 2013 and 2012.

Income Taxes: HPBC is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

U.S. GAAP requires that a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Due to its tax-exempt status, HPBC is not subject to U.S. federal income tax or state income tax. HPBC's Form 990 has not been subject to examination by the Internal Revenue Service or the state of Florida for the last three years. HPBC does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. HPBC recognizes interest and/or penalties related to income tax matters in income tax expense. HPBC did not have any amounts accrued for interest and penalties at September 30, 2013 and 2012.

(Continued)

HOSPICE OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

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

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2013 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2013. Management has performed their analysis through December 16, 2013, which is the date the financial statements were issued.

NOTE 2 - ACCOUNTS RECEIVABLE

HPBC provides hospice and palliative care services, medicine, medical equipment, and medical supplies to patients, and does not require collateral or other security in providing these services. However, HPBC routinely obtains assignment of benefits payable under patients' health care insurance programs, plans, or policies. Since over 90% of HPBC's revenues come from Medicare and Medicaid, credit risk with respect to accounts receivable is limited. At September 30, 2013 and 2012, approximately 92% and 94% of HPBC's accounts receivable are from Medicare and Medicaid, respectively.

At September 30, accounts receivable by payor category consists of the following:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 9,974,957	\$ 12,546,272
Medicaid	2,016,650	2,534,781
Private insurance	663,205	844,561
Patients and others	<u>94,202</u>	<u>105,931</u>
	12,749,014	16,031,545
 Medicare Periodic Interim Payments (PIP)	 (3,491,535)	 (8,815,987)
Allowance for uncollectible accounts	<u>(597,089)</u>	<u>(837,580)</u>
	<u>\$ 8,660,390</u>	<u>\$ 6,377,978</u>

NOTE 3 - PROPERTY AND EQUIPMENT

HPBC's net property and equipment at September 30 is as follows:

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 2,272,211	\$ 2,272,211
Buildings and improvements	18,888,006	18,695,445
Leasehold improvements	3,104,481	2,922,231
Furniture and equipment	7,782,669	7,187,549
Technology costs	13,568,374	12,603,097
Vehicles	125,425	125,425
Projects in progress	<u>164,626</u>	<u>78,016</u>
	45,905,792	43,883,974
Less: Accumulated depreciation	<u>(23,603,170)</u>	<u>(20,102,455)</u>
	<u>\$ 22,302,622</u>	<u>\$ 23,781,519</u>

Depreciation expense for the years ended September 30, 2013 and 2012 was \$3,500,715 and \$2,767,046, respectively.

(Continued)

HOSPICE OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 4 - LONG-TERM DEBT

In December 2001, HPBC entered into a loan agreement with Palm Beach County, Florida relating to the issuance of \$12,000,000 in variable rate demand revenue bonds (Series 2001). The bonds were issued in connection with a project to expand HPBC's Gerstenberg Center facility. The entire bond issue is due October 1, 2031 and bears interest at prevailing market rates determined by the remarketing agent, reset every seven (7) days (effective average interest rates of 0.13% and 0.16% for fiscal years 2013 and 2012, respectively).

The Series 2001 Bonds are secured by an irrevocable transferable letter of credit issued by The Northern Trust Company. The letter of credit expires on October 1, 2016, and contains a guarantee from TrustBridge and HPBC Foundation, both related parties. In the event the remarketing agent is unable to remarket the bonds, they become a demand note under the letter of credit and require repayment under the terms of the letter of credit.

The bonds contain covenants relating to ongoing operations and tax-exempt status. HPBC is in compliance with all financial covenants.

Interest expense was \$15,513 and \$19,051 for the years ended September 30, 2013 and 2012, respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

Expenses incurred by HPBC in the years ended September 30, 2013 and 2012 for management services provided by TrustBridge were \$2,913,721 and \$2,684,586, respectively.

HPBC Foundation provides fundraising, resale shop management, investment management, and other support services to TrustBridge and its affiliates. HPBC Foundation provides grants in support of various patient care and supportive care programs, as well as other strategic initiatives. HPBC received grants from HPBC Foundation in the amounts of \$2,326,635 and \$3,761,172 for the years ended September 30, 2013 and 2012, respectively.

SFPMS, founded in 2011, is a consultation medical practice providing services in palliative medicine; specializing in medical care for people with life-limiting illnesses. The organization has the largest group of board-certified palliative care physicians in South Florida, who consult with patients and their physicians to alleviate pain and other symptoms caused by illness and medical treatments.

TMS provided durable medical equipment and medical supplies to health care providers and to individuals through contracts and agreements with Medicare, Medicaid, and commercial insurance companies. TMS also sold and serviced rehabilitation equipment. In 2011, HPBC transferred all of its equipment rental inventory to TrustBridge, and TrustBridge maintained the equipment rental inventory and allocated third party cost of sales and other expenses to TMS. TMS operations were discontinued as of January 2012.

HPOC was a triage call center service that provided seamless telephone access to hospice trained professionals after hours. This service allowed hospices that do not have a centralized, clinical based call center with triage capability to meet the evening and weekend needs of their patients and families. HPOC operations were discontinued as of October 2011.

(Continued)

HOSPICE OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

As of September 30, 2013, HPBC owes \$3,312,908 to TrustBridge and \$346 to HPBC Foundation for certain expenses paid by TrustBridge on HPBC's behalf. As of September 30, 2012, HPBC was owed \$3,606,719 from TrustBridge and \$807,995 from HPBC Foundation, and owed \$726 to HPOC and \$1,014,396 to TMS.

During the year ended September 30, 2012, HPBC transferred an amount of \$9,000,000 to TrustBridge. This transaction is included in the statements of operations and changes in net assets as a change in unrestricted net assets and has been excluded from change in unrestricted net assets from operations for the year ended September 30, 2012.

NOTE 6 - NET PATIENT SERVICE REVENUES

Net patient service revenues for the years ended September 30 are as follows:

	<u>2013</u>	<u>2012</u>
Government sources		
Medicare	\$ 81,798,014	\$ 80,221,460
Medicaid	<u>3,844,458</u>	<u>4,063,014</u>
	85,642,472	84,284,474
Other sources		
Insurance, private pay, and other third-parties	<u>4,494,170</u>	<u>4,614,658</u>
	90,136,642	88,899,132
Less: Allowances and charity care	<u>(1,691,999)</u>	<u>(1,254,645)</u>
	<u>\$ 88,444,643</u>	<u>\$ 87,644,487</u>

NOTE 7 - EMPLOYEE BENEFIT PLAN

HPBC maintains a non-contributory defined contribution retirement plan covering substantially all of its full-time employees. For the years ended September 30, 2013 and 2012, HPBC contributed three percent of eligible employees' gross wages to the plan. Total retirement plan expense for the years ended September 30, 2013 and 2012 was \$986,838 and \$1,261,020, respectively.

NOTE 8 - LEASES

HPBC leases various patient care facilities and office space under operating leases that extend through August 2018. Total rent expense, included in occupancy and equipment expenses, amounted to \$5,995,472 in 2013 and \$5,180,548 in 2012.

Future minimum payments under the operating leases consist of the following:

2014	\$ 6,599,007
2015	4,373,647
2016	2,872,786
2017	2,765,009
2018	<u>984,571</u>
	<u>\$ 17,595,020</u>

(Continued)

HOSPICE OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 9 - DONATED SERVICES

HPBC has estimated that during the years ended September 30, 2013 and 2012, dedicated volunteers have donated hours of service as follows (unaudited):

	<u>2013</u>	<u>2012</u>
Patient care services	18,986	16,584
Clerical and other services	<u>31,357</u>	<u>30,590</u>
	<u>50,343</u>	<u>47,174</u>

Because the above donated services do not meet the recognition criteria of U.S. GAAP, their estimated values have not been recognized in the statements of operations and changes in net assets.

NOTE 10 - FUNCTIONAL EXPENSES

Expenses related to providing hospice and palliative care services as well as general and administrative, fundraising, and resale activities for the years ended September 30 are as follows:

	<u>2013</u>	<u>2012</u>
Hospice and palliative care	\$ 82,338,550	\$ 78,206,998
General and administrative	<u>15,785,608</u>	<u>14,477,644</u>
	<u>\$ 98,124,158</u>	<u>\$ 92,684,642</u>

NOTE 11 - SUPPORT ORGANIZATION

HFPBC, an independently managed non-profit corporation, was established in 1985 to exclusively support the programs, services, activities, interest, and organization of HPBC. U.S. GAAP requires HPBC to recognize as an asset its interest in the net assets of HFPBC, and to reflect in its changes in net assets the changes in the net assets of HFPBC. Net assets held by HFPBC as of September 30, 2013 and 2012 amounted to \$18,699,995 and \$17,225,357, respectively.

During the years ended September 30, 2013 and 2012, HFPBC made grants to HPBC totaling \$900,000 and \$550,000, respectively, to provide funding for the following activities:

	<u>2013</u>	<u>2012</u>
Crisis Care	\$ 500,000	\$ -
Integrative Therapies	200,000	200,000
Bereavement Program Fund	200,000	200,000
Video conferencing equipment	<u>-</u>	<u>150,000</u>
	<u>\$ 900,000</u>	<u>\$ 550,000</u>

These grants were initially recognized as temporarily restricted net assets, and portions have been reclassified to unrestricted net assets upon meeting their purpose requirements.

(Continued)

HOSPICE OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 12 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in HPBC's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. There are no Level 1 investments at September 30, 2013 and 2012.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. There are no Level 2 investments at September 30, 2013 and 2012.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. The interest in net assets of HFPBC is based on the underlying assets of HFPBC, which are not redeemable upon request by HPBC. The interest in net assets of HFPBC is largely composed of underlying investments that have observable inputs and market activity allowing for pricing based on the market prices of the items in the investments (market approach valuation technique).

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Assets measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at September 30, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest in net assets of HFPBC	\$ -	\$ -	\$ 18,699,995	\$ 18,699,995

	<u>Fair Value Measurements at September 30, 2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest in net assets of HFPBC	\$ -	\$ -	\$ 17,225,357	\$ 17,225,357

(Continued)

HOSPICE OF PALM BEACH COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE 12 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

A reconciliation of beginning and ending balances for HPBC's fair value measurements using Level 3 inputs is as follows:

Level 3 Instruments

	Interest in Net Assets of <u>HFPBC</u>
Assets at October 1, 2011	\$ 15,458,657
Change in beneficial interest in net assets of HFPBC	2,316,700
Grants from HFPBC	<u>(550,000)</u>
Assets at September 30, 2012	17,225,357
Change in beneficial interest in net assets of HFPBC	2,374,638
Grants from HFPBC	<u>(900,000)</u>
Assets at September 30, 2013	<u>\$ 18,699,995</u>

All gains and losses related to assets with level 3 inputs are unrealized and pertain to changes in interest in net assets of HFPBC. They are disclosed as such in HPBC's statements of operations and changes in net assets.