

ALIVE HOSPICE, INC.
FINANCIAL STATEMENTS
December 31, 2008 and 2007

ALIVE HOSPICE, INC.
Nashville, Tennessee

FINANCIAL STATEMENTS
December 31, 2008 and 2007

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Alive Hospice, Inc.
Nashville, Tennessee

We have audited the accompanying statement of financial position of Alive Hospice, Inc. (the "Organization") as of December 31, 2008, and the related statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Organization as of December 31, 2007, were audited by other auditors whose report dated March 13, 2008, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alive Hospice, Inc. as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

South Bend, Indiana
March 30, 2009

ALIVE HOSPICE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,856,376	\$ 7,023,831
Accounts receivable, net	6,599,992	3,555,431
Assets limited as to use	245,327	244,993
Pledges receivable	33,500	73,354
Prepaid expenses	149,616	229,562
Other current assets	<u>103,019</u>	<u>80,467</u>
Total current assets	10,987,830	11,207,638
 Pledges receivable, net	 155,175	 170,317
 Investments	 1,170,461	 1,531,238
 Property and equipment, net	 13,541,619	 12,234,497
 Goodwill, net	 <u>569,870</u>	 <u>623,093</u>
	<u>\$ 26,424,955</u>	<u>\$ 25,766,783</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Current maturities of long-term debt	\$ 506,805	\$ 526,668
Accounts payable	959,634	833,801
Accrued expenses	<u>1,709,324</u>	<u>1,788,678</u>
Total current liabilities	3,175,763	3,149,147
 Long-term debt, less current maturities	 2,273,195	 1,842,776
Derivative liability - interest rate swap	<u>36,241</u>	<u>-</u>
	2,309,436	1,842,776
 Net assets		
Unrestricted		
Undesignated	19,520,484	19,048,990
Board designated	<u>243,134</u>	<u>340,615</u>
Total unrestricted net assets	19,763,618	19,389,605
 Temporarily restricted	 176,138	 385,255
Permanently restricted	<u>1,000,000</u>	<u>1,000,000</u>
Total net assets	<u>20,939,756</u>	<u>20,774,860</u>
	<u>\$ 26,424,955</u>	<u>\$ 25,766,783</u>

See accompanying notes to financial statements.

ALIVE HOSPICE, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Unrestricted net assets		
Revenue		
Net patient service revenue	\$ 30,612,655	\$ 29,040,894
Contributions and fundraising	1,901,908	2,222,820
Investment income	90,008	73,313
Net realized gains (losses) on investments	(72,346)	2,077
Other revenue	14,761	34,664
Net assets released from restriction used for operations	<u>52,844</u>	<u>133,662</u>
Total operating revenue	32,599,830	31,507,430
Operating expenses		
Salaries and wages	14,927,503	13,221,180
Employee benefits	2,942,884	3,121,933
Contract labor	701,833	700,046
Purchased services	3,961,514	4,415,270
Pharmacy and medical supplies	3,446,542	3,511,329
Occupancy and equipment expense	2,014,750	1,604,082
Other	2,618,740	2,618,732
Depreciation	1,116,423	808,445
Amortization	53,223	-
Provision for uncollectible accounts	178,663	99,785
Interest	<u>107,003</u>	<u>140,899</u>
Total operating expenses	<u>32,069,078</u>	<u>30,241,701</u>
Revenue in excess of operating expenses	530,752	1,265,729
Non-operating revenue and expenses		
Net unrealized gains (losses) on investments	(120,498)	11,108
Unrealized loss on interest rate swap agreement	(36,241)	-
Net assets released from restriction used for capital expenditures	<u>-</u>	<u>600,000</u>
Total non-operating revenue and expenses	<u>(156,739)</u>	<u>611,108</u>
Change in unrestricted net assets	374,013	1,876,837
Temporarily restricted net assets		
Contributions	17,995	190,859
Investment income	34,265	26,747
Net unrealized gains (losses) on investments	(208,533)	11,996
Net assets released from restriction used for operations	(52,844)	(133,662)
Net assets released from restriction used for capital expenditures	<u>-</u>	<u>(600,000)</u>
Change in temporarily restricted net assets	<u>(209,117)</u>	<u>(504,060)</u>
Change in net assets	164,896	1,372,777
Net assets at beginning of year	<u>20,774,860</u>	<u>19,402,083</u>
Net assets at end of year	<u>\$ 20,939,756</u>	<u>\$ 20,774,860</u>

See accompanying notes to financial statements.

ALIVE HOSPICE, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets	\$ 164,896	\$ 1,372,777
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,169,646	808,445
Loss on disposal of property and equipment	12,211	9,953
Net realized and unrealized (gains) losses on investments	401,377	(25,181)
Provision for uncollectible accounts	178,663	99,785
Unrealized loss on interest rate swap agreement	36,241	-
Changes in assets and liabilities		
Accounts receivable	(3,223,224)	83,217
Pledges receivable	54,996	19,061
Prepaid expenses	79,946	(68,744)
Other current assets	(22,552)	(24,143)
Accounts payable	125,833	79,943
Accrued expenses	(79,354)	(122,810)
Net cash from operating activities	(1,101,321)	2,232,303
Cash flows from investing activities		
Proceeds from sales of investments	584,063	1,444,439
Purchases of investments	(624,663)	(1,597,834)
Purchases of property and equipment	(2,435,756)	(1,602,552)
Net change in assets limited as to use	(334)	-
Net cash from investing activities	(2,476,690)	(1,755,947)
Cash flows from financing activities		
Borrowings of long-term debt	1,300,000	-
Payments on long-term debt	(889,444)	(46,667)
Net cash from financing activities	410,556	(46,667)
Net change in cash and cash equivalents	(3,167,455)	429,689
Cash and cash equivalents at beginning of year	7,023,831	6,594,142
Cash and cash equivalents at end of year	<u>\$ 3,856,376</u>	<u>\$ 7,023,831</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 109,501	\$ 121,324

See accompanying notes to financial statements.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Alive Hospice, Inc. (the "Organization") provides medical, psychological, and spiritual care to terminally ill patients and their families, located primarily in Middle Tennessee.

Basis of Accounting: 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.

Financial Statement Presentation: The financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 requires, among other things, that 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 the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The unrestricted net assets are comprised of Board designated and unrestricted amounts.

Temporarily restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization. Temporarily restricted net assets at December 31, 2008 and 2007 represent donor-restricted funds designated for various programs offered by the Organization.

Permanently restricted net assets represent the part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. Permanently restricted net assets at December 31, 2008 and 2007 represent donor-restricted gifts that have been invested and are to be maintained in perpetuity, the earnings from which are temporarily restricted to support various programs offered by the Organization.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$250,000 (increased from \$100,000 in October 2008) per financial institution. At times, these amounts may exceed federally insured limits. Additionally, for purposes of the statement of cash flows, the Organization 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 for patient care services at net realizable value. Past due receivables are determined based on contractual terms. The Organization does not accrue interest on any of its accounts receivable. As of December 31, 2008 and 2007, approximately 84% and 76%, respectively, of the Organization's accounts receivable are from Medicare and Medicaid.

Allowance for Uncollectible Accounts: The allowance for uncollectible accounts is determined by management based upon the Organization's historical losses, specific patient circumstances, and general economic conditions. Periodically, management reviews patient accounts receivable and records an allowance based on current circumstances, and charges off the receivable against the allowance when all attempts to collect the receivable are deemed to have failed in accordance with the internal collection policy. Management believes the allowance of \$610,138 and \$435,138 as of December 31, 2008 and 2007, respectively, is adequate to cover potential losses from uncollectible accounts.

Assets Limited as to Use: Assets limited as to use consist of investments held by trustee. Investments held by the trustee are stated at market. Income on the investments held by the trustee is reported as interest income. At December 31, 2008 and 2007, bond funds held by trustee for payment of current maturities of bonds payable and accrued interest payable totaling \$245,327 and \$244,993, respectively, are reported in current assets.

Pledges Receivable: Pledges receivable represent the remaining balance of unconditional promises to give that have not yet been paid. Pledges that are expected to be collected within one year or less are recorded at net realizable value. For pledges that are expected to be collected beyond one year, management has determined the difference between net realizable value and the present value of their estimated future cash flows to be immaterial to the financial statements. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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

An allowance is made for uncollectible contributions based on management's expectations regarding collection of outstanding promises to give and the Organization's collection experience. Management believes the allowance of \$12,000 as of December 31, 2008 and 2007 is adequate to cover potential losses from uncollectible accounts.

Investments: The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value based on quoted market prices or dealer quotes in the statements of financial position. These investments are initially recorded at cost if they were purchased or at their fair market value on the date of the gift if they were received as a donation. Unrealized gains and losses resulting from year-end adjustments are included in the statements of operations and changes in net assets.

Property and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at their fair market value on the date of the gift. Additions and improvements over \$500 are capitalized; expenditures for routine maintenance are charged to operations. Depreciation and amortization is provided over the estimated useful lives of the various classes of assets on the straight-line method.

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.

Goodwill: Goodwill represents the excess of the purchase price over the fair value of net assets of businesses acquired, and is being amortized on a straight-line basis over 40 years in accordance with Accounting Principles Board Opinion Number 17, *Intangible Assets*. Recoverability is reviewed annually or sooner if events or changes in circumstances indicate that the carrying amount may exceed fair value.

Net Patient Service Revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Approximately 91% of the Organization's net patient service revenue was derived from the Medicare and Medicaid programs for the years ended December 31, 2008 and 2007.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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

Provisions for estimated third-party payor settlements have been made in the financial statements for estimated contractual adjustments, representing the difference between the standard charges for services and estimated total payments to be received from third-party payors. These estimates are adjusted in future periods as final settlements are determined.

The Organization, like other health care providers, may be subject to investigations, regulatory action, lawsuits, and claims arising out of the conduct of its business, including the interpretation of laws and regulations governing the Medicare and Medicaid programs and other third-party payor agreements. At this time, no specific alleged violations, claims, or assessments have been made. Management intends to fully cooperate with any governmental agencies in requests for information. Noncompliance with laws and regulations can make the Organization subject to regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

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. The Organization did not exceed the 20% cap related to inpatient days in 2008 and 2007. The second limit relates to an aggregate Medicare reimbursement cap calculated by the Medicare fiscal intermediary. The Organization did not exceed the Medicare cap for the years ended December 31, 2008 and 2007.

Charity Care: The Organization has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Since the Organization does not expect payment, estimated charges for charity care are recorded in revenue with a corresponding offsetting amount. Charity care charges, at rates similar to those charged to patients and third parties, were \$799,394 and \$429,259 for the years ended December 31, 2008 and 2007, respectively.

Contributions: Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restriction.

If a restriction is fulfilled in the same accounting period in which the contribution is received, the contribution is reported as unrestricted.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

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

Donated Services: The value of time contributed by unpaid volunteers to the Organization has not been included in the financial statements. The value of donated tangible items is recorded at fair value at date of receipt.

Fair Value of Financial Instruments: The Organization's carrying amount for its financial instruments, which include accounts receivable, accounts payable, interest rate swap, and long-term debt, approximates fair value.

Adoption of New Accounting Standards: In 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards, and expands the disclosure of the methods used and the effect of fair value measurements on earnings. This Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Organization adopted applicable portions of this standard for the year ended December 31, 2008.

The Organization adopted FASB Staff Position (FSP) 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds* as of July 1, 2007, which was the effective date of UPMIFA in the state of Tennessee. FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for organizations subject to an enacted version of UPMIFA. Additional disclosure is provided in Note 10.

Income Taxes: The Organization 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.

Reclassifications: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net assets.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - PLEDGES RECEIVABLE

The Organization recognizes unconditional promises of contributions at fair value in the period the promise is made. Pledges receivable are scheduled to be received over the following periods:

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 33,500	\$ 73,354
One to five years	<u>167,175</u>	<u>182,317</u>
Total contributions	200,675	255,671
 Allowance for uncollectible pledges	 <u>(12,000)</u>	 <u>(12,000)</u>
	 <u>\$ 188,675</u>	 <u>\$ 243,671</u>

Management has determined that any discount on pledges would be immaterial at December 31, 2008 and 2007. Management has recorded an allowance for uncollectible pledges of \$12,000 at December 31, 2008 and 2007.

NOTE 3 - INVESTMENTS

Investments are recorded at fair market value and consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>
Money market	\$ 70,544	\$ 59,466
Fixed income securities	334,601	522,797
Equity securities	<u>765,316</u>	<u>948,975</u>
	<u>\$ 1,170,461</u>	<u>\$ 1,531,238</u>

The following schedule summarizes the investment return for the years ended, December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 132,939	\$ 111,743
Investment expenses	<u>(8,666)</u>	<u>(11,683)</u>
	<u>\$ 124,273</u>	<u>\$ 100,060</u>
 Realized gains (losses) on investments	 <u>\$ (72,346)</u>	 <u>\$ 2,077</u>
Unrealized gains (losses) on investments	<u>\$ (329,031)</u>	<u>\$ 23,104</u>

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 - INVESTMENTS (Continued)

Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Organization.

NOTE 4 - PROPERTY AND EQUIPMENT

The Organization's property and equipment, and the related accumulated depreciation at December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Land and improvements	\$ 3,592,836	\$ 2,884,086
Buildings and improvements	11,038,401	9,938,645
Office furniture and equipment	<u>3,788,125</u>	<u>3,279,443</u>
	18,419,362	16,102,174
Less: Accumulated depreciation	<u>(4,877,743)</u>	<u>(3,867,677)</u>
	<u>\$ 13,541,619</u>	<u>\$ 12,234,497</u>

Depreciation expense for the years ended, December 31, 2008 and 2007 was \$1,116,423 and \$808,445, respectively.

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NOTE 5 - LONG-TERM DEBT

A summary of long-term debt at December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee, Variable Rate Tax Exempt Revenue Bonds, Series 2001 (Alive Hospice, Inc. Project), certain principal prepayments required with final principal due August 1, 2019, with variable rate monthly interest payments (1.20% at December 31, 2008), secured by a letter of credit. The Organization is required to meet financial and other covenants. At December 31, 2008 the Organization was in compliance with all financial covenants.	\$ 1,480,000	\$ 1,720,000
Note payable to Avenue Bank, bearing interest at a fixed rate of 5%, secured by real property, with monthly principal and interest payments in the amount of \$7,600, with final payment of principal due December 31, 2013.	1,300,000	-
Note payable to Bank of America, bearing interest at the LIBOR fixed rate, secured by real property, with monthly principal payments of \$3,889 plus interest. Note paid during 2008.	<div style="display: flex; justify-content: flex-end;"> <div style="margin-right: 10px;">-</div> <div style="border-top: 1px solid black; width: 100px; text-align: right;">649,444</div> </div> <div style="border-top: 1px solid black; width: 100px; text-align: right;">2,780,000</div>	<div style="display: flex; justify-content: flex-end;"> <div style="margin-right: 10px;">649,444</div> <div style="border-top: 1px solid black; width: 100px; text-align: right;">2,369,444</div> </div>
Less current maturities	<div style="border-top: 1px solid black; width: 100px; text-align: right;">506,805</div>	<div style="border-top: 1px solid black; width: 100px; text-align: right;">526,668</div>
	<u>\$ 2,273,195</u>	<u>\$ 1,842,776</u>

Scheduled principal repayments over the next five years are as follows:

2009	\$ 506,805
2010	268,176
2011	269,618
2012	271,133
2013	1,184,268

ALIVE HOSPICE, INC.
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NOTE 6 - INTEREST RATE SWAP AGREEMENT

The Organization also entered into a Master Agreement (swap) with Bank of America dated November 1, 1999, to fix the floating rate associated with the above variable rate Bonds. The fixed rate was established at 5.07%. The swap terminates on August 1, 2010. An unrealized loss on the swap agreements was incurred as of December 31, 2008, resulting in the recognition of a non-current liability (derivative liability - interest rate swap) of \$36,241 in the statement of financial position and a corresponding loss of \$36,241 reported in the statement of operations and changes in net assets for 2008.

NOTE 7 - LEASE COMMITMENTS

The Organization leases office space and certain equipment under various noncancellable operating leases. The leases expire on various dates through 2013, with aggregate minimum rentals as follows:

2009	\$ 733,066
2010	660,130
2011	345,312
2012	214,155
2013	<u>26,054</u>
	<u>\$ 1,978,717</u>

Total rental expense for all operating leases was \$802,656 and \$604,565 for the years ended December 31, 2008 and 2007, respectively.

NOTE 8 - RETIREMENT PLAN

The Organization provides a defined contribution 403(b) retirement plan. Employees meeting certain eligibility requirements can participate in the plan to the extent allowed under ERISA. The plan also provides for discretionary contributions by the Organization. Participants are immediately vested in their voluntary contributions plus related earnings; whereas, participants are fully vested in the Organization contributions plus related earnings after four years of service. Contribution expense was \$-0- and \$491,221 for the years ended December 31, 2008 and 2007, respectively.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 - FUNCTIONAL EXPENSES

Expenses by functional classification for the years ended, December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Program services	\$ 25,739,425	\$ 24,256,929
General and administrative	5,781,182	5,560,235
Fundraising	<u>548,471</u>	<u>424,537</u>
	<u>\$ 32,069,078</u>	<u>\$ 30,241,701</u>

NOTE 10 - ENDOWMENT ASSETS

Overview: The Organization's endowment consists of one fund that holds investments in securities traded on the public markets. The endowment is made up of temporarily restricted and permanently restricted assets. As required by generally accepted accounting principles, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Organization's board of directors has determined the requirements of Tennessee's version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to center around the preservation of the fair value of the original investment as of the date of the asset transfers. Investments resulting from donations directing that they be invested in perpetuity are classified as permanently restricted. The earnings generated by these investments are classified as unrestricted or temporarily restricted depending on the donors' stipulations. The temporarily restricted net assets are reclassified as unrestricted upon their appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by Tennessee's version of UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate its endowment funds:

- (1) The duration and preservation of the fund
 - (2) The purposes of the Organization and the donor-restricted endowment fund
 - (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
 - (7) The investment policies of the Organization
-

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - ENDOWMENT ASSETS (Continued)

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce a moderate return while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Organization disburses funds as needed within the guidelines of endowment fund. Disbursements to the Organization are used to assist with its programs and services according to donor restrictions.

Endowment Net Asset Composition by Type of Fund: The Organization's composition of endowment assets for the years ended December 31, 2008 and 2007 is as follows:

	2008			2007		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 1,000,000	\$ 1,000,000	\$ 174,268	\$ 1,000,000	\$ 1,174,268

Change in Endowment Net Assets: The Organization's change in endowment assets, by net asset composition, for the year ended December 31, 2008 and the period July 1, 2007 to December 31, 2007 is as follows:

	2008			2007		
	Temporarily Restricted	Permanently Restricted	Total	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	\$ 174,268	\$ 1,000,000	\$ 1,174,268	\$ 189,256	\$ 1,000,000	\$ 1,189,256
Interest and dividends	34,265	-	34,265	13,327	-	13,327
Net losses	(208,533)	-	(208,533)	(28,315)	-	(28,315)
Ending balance	\$ -	\$ 1,000,000	\$ 1,000,000	\$ 174,268	\$ 1,000,000	\$ 1,174,268

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NOTE 11 - FAIR VALUE MEASUREMENTS

Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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.

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.

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.

The fair values of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

The Organization's derivative, which is comprised of an interest rate swap, is reported at fair value utilizing Level 2 inputs. The Organization obtains fair value from a financial institution who utilizes internal models with observable market data inputs to estimate the value of this instrument.

Contributions are reported at fair value at the date the contribution is made. Contributions may include cash, securities, fixed assets, or pledges receivable. Securities are measured using the same methodology as discussed above. Fixed assets are measured using appraisals or quoted market prices for similar assets or other market data.

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NOTE 11 - FAIR VALUE MEASUREMENTS (Continued)

Assets and Liabilities Measured on a Recurring Basis

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

	<u>Fair Value Measurements at 12/31/08</u>		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Assets limited as to use	\$ 245,327	\$ -	\$ 245,327
Investments	<u>1,170,461</u>	<u>-</u>	<u>1,170,461</u>
Total assets	<u>\$ 1,415,788</u>	<u>\$ -</u>	<u>\$ 1,415,788</u>
Liabilities:			
Derivative liability - interest rate swap	\$ -	\$ 36,241	\$ 36,241
Total liabilities	<u>\$ -</u>	<u>\$ 36,241</u>	<u>\$ 36,241</u>