

ALIVE HOSPICE, INC.

FINANCIAL STATEMENTS

December 31, 2011 and 2010

ALIVE HOSPICE, INC.
Nashville, Tennessee

FINANCIAL STATEMENTS
December 31, 2011 and 2010

CONTENTS

REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION.....	2
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS.....	3
STATEMENTS OF CASH FLOWS.....	4
NOTES TO FINANCIAL STATEMENTS.....	5

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Alive Hospice, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Alive Hospice, Inc. (the "Organization") as of December 31, 2011 and 2010, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Organization's management. 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 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 audits provide 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, 2011 and 2010, and the results of its operations and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Crowe Horwath LLP

South Bend, Indiana
May 25, 2012

ALIVE HOSPICE, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,936,266	\$ 7,408,664
Accounts receivable, net	2,637,877	3,272,563
Pledges receivable, net	217,133	142,962
Prepaid expenses	387,830	268,771
Assets held for sale	290,000	-
Other current assets	<u>64,922</u>	<u>63,413</u>
Total current assets	10,534,028	11,156,373
 Pledges receivable	 45,105	 18,172
 Investments	 1,726,865	 1,737,394
 Property and equipment, net	 11,435,869	 12,116,677
 Goodwill	 <u>554,293</u>	 <u>554,293</u>
	<u><u>\$ 24,296,160</u></u>	<u><u>\$ 25,582,909</u></u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Current maturities of long-term debt	\$ 240,000	\$ 269,618
Accounts payable	1,113,692	1,209,308
Accrued expenses	<u>1,664,783</u>	<u>1,861,363</u>
Total current liabilities	3,018,475	3,340,289
 Long-term debt, less current maturities	 280,000	 1,737,330
 Net assets		
Unrestricted		
Undesignated	18,853,285	18,535,513
Board designated	<u>376,444</u>	<u>421,380</u>
Total unrestricted net assets	19,229,729	18,956,893
 Temporarily restricted	 624,389	 419,757
Permanently restricted	<u>1,143,567</u>	<u>1,128,640</u>
Total net assets	<u>20,997,685</u>	<u>20,505,290</u>
	<u><u>\$ 24,296,160</u></u>	<u><u>\$ 25,582,909</u></u>

See accompanying notes to financial statements.

ALIVE HOSPICE, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted net assets		
Revenue		
Net patient service revenue	\$ 30,145,731	\$ 29,653,395
Contributions and fundraising	1,304,316	1,387,709
Investment income	22,680	32,412
Net realized gains on investments	2,243	11,432
Other revenue	27,389	37,010
Net assets released from restriction used for operations	<u>138,036</u>	<u>150,371</u>
Total operating revenue	31,640,395	31,272,329
Operating expenses		
Salaries and wages	14,650,647	14,958,277
Employee benefits	2,822,772	2,959,669
Contract labor	914,761	619,699
Purchased services	3,656,159	3,461,936
Pharmacy and medical supplies	3,340,723	3,474,638
Occupancy and equipment	1,951,768	1,891,639
Other	2,568,661	2,483,854
Depreciation	1,089,303	1,208,962
Provision for uncollectible accounts	284,368	64,272
Interest	<u>62,767</u>	<u>114,279</u>
Total operating expenses	<u>31,341,929</u>	<u>31,237,225</u>
Change in unrestricted net assets from operations	298,466	35,104
Non-operating revenue and expenses		
Net unrealized gains (losses) on investments	(25,630)	21,458
Unrealized gain on interest rate swap agreement	<u>-</u>	<u>12,626</u>
Total non-operating revenue and expenses	<u>(25,630)</u>	<u>34,084</u>
Change in unrestricted net assets	272,836	69,188
Temporarily restricted net assets		
Contributions	366,563	105,643
Investment income	34,108	28,207
Net realized and unrealized gains (losses) on investments	(58,003)	106,422
Net assets released from restriction used for operations	<u>(138,036)</u>	<u>(150,371)</u>
Change in temporarily restricted net assets	204,632	89,901
Permanently restricted net assets		
Contributions	<u>14,927</u>	<u>46,482</u>
Change in permanently restricted net assets	<u>14,927</u>	<u>46,482</u>
Change in net assets	492,395	205,571
Net assets at beginning of year	<u>20,505,290</u>	<u>20,299,719</u>
Net assets at end of year	<u>\$ 20,997,685</u>	<u>\$ 20,505,290</u>

See accompanying notes to financial statements.

ALIVE HOSPICE, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 492,395	\$ 205,571
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	1,089,303	1,208,962
Loss on disposal of property and equipment	6,809	9,988
Net realized and unrealized (gains) losses on investments	81,390	(139,312)
Provision for uncollectible accounts	284,368	64,272
Unrealized gain on interest rate swap agreement	-	(12,626)
Restricted contributions received	(14,927)	(46,482)
Donated property	(290,000)	-
Changes in assets and liabilities		
Accounts receivable	350,318	1,863,238
Pledges receivable	(101,104)	77,552
Prepaid expenses	(119,059)	28,449
Other current assets	(1,509)	100,303
Accounts payable	(95,616)	231,284
Accrued expenses	<u>(196,580)</u>	<u>(1,533,351)</u>
Net cash from operating activities	1,485,788	2,057,848
Cash flows from investing activities		
Proceeds from sales of investments	791,707	488,709
Purchases of investments	(862,568)	(620,901)
Purchases of property and equipment	(415,304)	(681,109)
Net change in assets limited as to use	<u>-</u>	<u>239,808</u>
Net cash from investing activities	(486,165)	(573,493)
Cash flows from financing activities		
Payments on long-term debt	(1,486,948)	(507,246)
Proceeds from restricted contributions	<u>14,927</u>	<u>46,482</u>
Net cash from financing activities	<u>(1,472,021)</u>	<u>(460,764)</u>
Net change in cash and cash equivalents	(472,398)	1,023,591
Cash and cash equivalents at beginning of year	<u>7,408,664</u>	<u>6,385,073</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,936,266</u></u>	<u><u>\$ 7,408,664</u></u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 62,773	\$ 120,057

See accompanying notes to financial statements.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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 ("U.S. GAAP").

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 the reported amounts of revenues and expenses during the reporting period. Areas where significant estimates are used in the accompanying financial statements include the allowance for uncollectible accounts and the fair values of investment securities and other financial instruments. Actual results could differ from those estimates.

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 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. Board designated net assets are designated for various purposes based on the direction of the Organization's Board of Directors, and are not specified as an endowment.

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, 2011 and 2010 represent pledges receivable, accumulated earnings on endowment funds, and 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, 2011 and 2010 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.

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are either interest-bearing and federally insured up to \$250,000 or non-interest bearing and fully guaranteed by the federal government. Additionally, for purposes of the statements of cash flows, the Organization considers all highly liquid investments 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, 2011 and 2010, approximately 83% and 85%, respectively, of the Organization's accounts receivable are from Medicare and Medicaid.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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

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 \$380,103 and \$205,478 as of December 31, 2011 and 2010, respectively, is adequate to cover potential losses from uncollectible accounts.

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.

Assets Held for Sale: Assets held for sale consists of a residence that was donated to the Organization during the year ended December 31, 2011. In January 2012, this property was subsequently sold.

Investments: All investments are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. See Notes 4 and 11 for additional information on the Organization's investments.

Property and Equipment: Property and equipment are stated at cost or, if donated to the Organization, at their fair 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.

Impairment of Long-Lived Assets: On an ongoing basis, the Organization reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. The Organization recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of December 31, 2011 and 2010, management believes that no impairments existed.

Goodwill: Goodwill represents the excess of the purchase price over the fair value of net assets of businesses acquired. The carrying amount of goodwill is reviewed annually to determine if facts and circumstances suggest that assets may be impaired. As of December 31, 2011 and 2010, management believes that no impairment existed.

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% and 92% of the Organization's net patient service revenue was derived from the Medicare and Medicaid programs for the years ended December 31, 2011 and 2010, respectively.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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 2011 and 2010. 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, 2011 and 2010.

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. The estimated cost of charity care was approximately \$839,000 and \$993,000 for the years ended December 31, 2011 and 2010, respectively. This cost estimate was based on the organization-wide cost to charge ratio.

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.

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.

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.

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.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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

Due to its tax-exempt status, the Organization is not subject to U.S. federal income tax or state income tax. The Organization's Form 990 has not been subject to examination by the Internal Revenue Service or the state of Tennessee for the last three years. The Organization does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Organization recognizes interest and/or penalties related to income tax matters in income tax expense. The Organization did not have any amounts accrued for interest and penalties at December 31, 2011 and 2010.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2011 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2011. Management performed their analysis through May 25, 2012, the date the financial statements were issued.

NOTE 2 - ACCOUNTS RECEIVABLE

At December 31, 2011 and 2010, accounts receivable consists of the following by payor type:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 2,854,334	\$ 2,737,815
Medicaid	963,518	670,970
Commercial and other	<u>787,545</u>	<u>537,264</u>
	4,605,397	3,946,049
Allowance for doubtful accounts	(380,103)	(205,478)
Medicare Periodic Interim Payment Program	<u>(1,587,417)</u>	<u>(468,008)</u>
	<u>\$ 2,637,877</u>	<u>\$ 3,272,563</u>

NOTE 3 - PLEDGES RECEIVABLE

The Organization recognizes unconditional promises to give at fair value in the period the promise is made. Pledges receivable are scheduled to be received over the following periods at December 31:

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 233,982	\$ 154,962
One to five years	25,105	18,172
Greater than five years	<u>20,000</u>	<u>-</u>
Total pledges receivable	279,087	173,134
Allowance for uncollectible pledges	<u>(16,849)</u>	<u>(12,000)</u>
	<u>\$ 262,238</u>	<u>\$ 161,134</u>

Management has determined that any discount on pledges would be immaterial at December 31, 2011 and 2010.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 4 - INVESTMENTS

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

	<u>2011</u>	<u>2010</u>
Money market funds	\$ 85,610	\$ 118,557
Bond funds	736,798	523,897
Equity mutual funds	<u>904,457</u>	<u>1,094,940</u>
	<u>\$ 1,726,865</u>	<u>\$ 1,737,394</u>

The following schedule summarizes the investment return for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 67,346	\$ 69,928
Investment expenses	<u>(10,558)</u>	<u>(9,309)</u>
	<u>\$ 56,788</u>	<u>\$ 60,619</u>
 Realized gains on investments	 <u>\$ 28,060</u>	 <u>\$ 12,178</u>
 Unrealized gains (losses) on investments	 <u>\$ (109,450)</u>	 <u>\$ 127,134</u>

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 5 - PROPERTY AND EQUIPMENT

The Organization's property and equipment, and the related accumulated depreciation at December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 3,592,836	\$ 3,592,836
Buildings and improvements	10,608,229	11,008,840
Office furniture and equipment	<u>2,868,269</u>	<u>4,198,161</u>
	17,069,334	18,799,837
Less: Accumulated depreciation	<u>(5,633,465)</u>	<u>(6,683,160)</u>
	<u>\$ 11,435,869</u>	<u>\$ 12,116,677</u>

Depreciation expense for the years ended, December 31, 2011 and 2010 was \$1,089,303 and \$1,208,962, respectively.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 6 - LONG-TERM DEBT

A summary of long-term debt at December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</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 (1.51% and 0.58% at December 31, 2011 and 2010, respectively), secured by a letter of credit which expires July 27, 2013. In the event the remarketing agents are 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 Organization is required to meet financial and other covenants. At December 31, 2011 and 2010, the Organization was in compliance with all financial covenants.	\$ 520,000	\$ 760,000
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. The Organization was required to meet financial and other covenants. At December 31, 2010, the Organization was in compliance with all financial covenants. This note was paid during 2011.	<u>-</u> 520,000	<u>1,246,948</u> 2,006,948
Less current maturities	<u>240,000</u>	<u>269,618</u>
	<u>\$ 280,000</u>	<u>\$ 1,737,330</u>

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

2012	\$ 240,000
2013	280,000

The Organization maintains a \$2,500,000 line of credit with a financial institution, which has been subsequently renewed through March 2013. Interest only is payable monthly, and any outstanding principal amounts drawn against the line would be due at maturity. The line of credit is secured by property of the Organization and carries an interest rate at 0.75% above the financial institution's prime rate, resulting in a rate of 4% at December 31, 2011. The Organization had no borrowings outstanding on the line of credit at December 31, 2011 or 2010.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 7 - LEASE COMMITMENTS

The Organization leases office space and certain equipment under various noncancellable operating leases. The leases expire on various dates through 2017, with aggregate minimum rentals as follows:

2012	\$ 1,009,893
2013	910,034
2014	340,943
2015	332,299
2016	340,419
Thereafter	<u>160,508</u>
	<u>\$ 3,094,096</u>

Total rental expense for all operating leases was \$1,316,119 and \$1,286,435 for the years ended December 31, 2011 and 2010, 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. No contributions were made for the years ended December 31, 2011 and 2010.

NOTE 9 - FUNCTIONAL EXPENSES

Expenses by functional classification for the years ended, December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Program services	\$ 26,149,225	\$ 23,990,926
General and administrative	4,816,206	6,878,651
Fundraising	<u>376,498</u>	<u>367,648</u>
	<u>\$ 31,341,929</u>	<u>\$ 31,237,225</u>

NOTE 10 - ENDOWMENT ASSETS

Overview: The Organization's endowments consist of one fund that holds investments in securities traded on the public markets. The endowments are made up of temporarily restricted and permanently restricted assets. As required by U.S. GAAP, 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

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 endowments 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 the endowments. Disbursements to the Organization are used to assist with its programs and services according to donor restrictions.

Fund with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. Cumulative deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. There were no such deficiencies as of December 31, 2011 and 2010.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 10 - ENDOWMENT ASSETS (Continued)

Endowment Net Asset Composition by Type of Fund: The Organization's composition of endowment assets for the years ended December 31, 2011 and 2010 is as follows:

2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 217,156	\$ 1,143,567	\$ 1,360,723

2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 241,051	\$ 1,128,640	\$ 1,369,691

Change in Endowment Net Assets: The Organization's change in endowment assets, by net asset composition, for the years ended December 31, 2011 and 2010 is as follows:

2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance	\$ -	\$ 241,051	\$ 1,128,640	\$ 1,369,691
Interest and dividends	-	34,108	-	34,108
Net losses	-	(58,003)	-	(58,003)
Additions	-	-	14,927	14,927
Total endowment	\$ -	\$ 217,156	\$ 1,143,567	\$ 1,360,723

2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance	\$ -	\$ 106,422	\$ 1,082,158	\$ 1,188,580
Interest and dividends	-	28,207	-	28,207
Net gains	-	106,422	-	106,422
Additions	-	-	46,482	46,482
Total endowment	\$ -	\$ 241,051	\$ 1,128,640	\$ 1,369,691

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 11 - 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 the Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance 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. The fair values of money market funds, bond funds, and equity mutual funds that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges.

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. The Organization has no assets or liabilities measured at fair value using Level 2 inputs.

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 Organization has no assets or liabilities measured at fair value using Level 3 inputs.

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 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 December 31, 2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 85,610	\$ -	\$ -	\$ 85,610
Bond funds	736,798	-	-	736,798
Equity mutual funds	<u>904,457</u>	<u>-</u>	<u>-</u>	<u>904,457</u>
Total assets	<u>\$ 1,726,865</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,726,865</u>

	<u>Fair Value Measurements at December 31, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 118,557	\$ -	\$ -	\$ 118,557
Bond funds	523,897	-	-	523,897
Equity mutual funds	<u>1,094,940</u>	<u>-</u>	<u>-</u>	<u>1,094,940</u>
Total assets	<u>\$ 1,737,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,737,394</u>