

**ALIVE HOSPICE, INC.  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

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# BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Alive Hospice, Inc.

We have audited the accompanying statements of financial position of Alive Hospice, Inc. (a Tennessee not for profit organization) as of December 31, 2004 and 2003, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Alive Hospice, Inc.'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, 2004 and 2003, and the 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.

*Blankenship CPA Group, PLLC*

March 28, 2005

**ALIVE HOSPICE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2004 AND 2003**

**ASSETS**

	2004	2003
Cash and cash equivalents:		
Unrestricted	\$ 2,676,930	\$ 1,913,262
Endowment	37,747	125,523
Board designated	160,980	210,642
Board restricted	830,524	715,856
Donor restricted	50,474	25,757
Total cash and cash equivalents	<u>3,756,655</u>	<u>2,991,040</u>
Investments:		
Permanently restricted	1,000,000	936,777
Endowment	73,141	-
Board designated	273,468	256,526
Total investments	<u>1,346,609</u>	<u>1,193,303</u>
Accounts receivable, less allowance for doubtful accounts of \$342,785 in 2004 and \$252,880 in 2003	3,108,925	2,612,225
Contributions receivable:		
Board designated	81,897	100,000
Donor restricted	169,394	205,464
Total contributions receivable	<u>251,291</u>	<u>305,464</u>
Prepaid expenses and other current assets	67,281	66,926
Land, buildings and equipment, net of accumulated depreciation of \$2,146,750 in 2004 and \$1,734,095 in 2003	<u>9,936,611</u>	<u>9,995,007</u>
Total assets	<u>\$ 18,467,372</u>	<u>\$ 17,163,965</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable	\$ 579,322	\$ 538,082
Accrued expenses	1,182,883	983,001
Bonds interest payable	13,426	11,510
Bonds payable	<u>2,200,000</u>	<u>2,440,000</u>
Total liabilities	<u>3,975,631</u>	<u>3,972,593</u>
Net assets:		
Unrestricted:		
Undesignated	12,644,640	11,415,403
Designated by Board	516,345	544,770
Total unrestricted net assets	<u>13,160,985</u>	<u>11,960,173</u>
Temporarily restricted	330,756	231,199
Permanently restricted	<u>1,000,000</u>	<u>1,000,000</u>
Total net assets	<u>14,491,741</u>	<u>13,191,372</u>
Total liabilities and net assets	<u>\$ 18,467,372</u>	<u>\$ 17,163,965</u>

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

**ALIVE HOSPICE, INC.**  
**STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Revenue, gains and other support:		
Net patient service revenue	\$ 17,158,313	\$ 13,932,027
Contributions	896,851	971,717
United Way	305,318	287,510
Investment income	52,183	97,287
Other	109,596	97,890
Net assets released from restrictions	<u>47,588</u>	<u>1,033,939</u>
 Total revenue, gains and other support	 <u>18,569,849</u>	 <u>16,420,370</u>
Expenses:		
Program services	13,810,305	10,759,075
Management and general	3,071,030	3,120,070
Fundraising	<u>487,702</u>	<u>412,674</u>
 Total expenses	 <u>17,369,037</u>	 <u>14,291,819</u>
 Excess of revenue, gains and other support over expenses	 <u><u>\$ 1,200,812</u></u>	 <u><u>\$ 2,128,551</u></u>

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



**ALIVE HOSPICE, INC.**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Unrestricted net assets:		
Excess of revenue, gains and other support over expenses	\$ 1,200,812	\$ 2,128,551
Change in unrestricted net assets	1,200,812	2,128,551
Unrestricted net assets, beginning of year	11,960,173	9,831,622
Unrestricted net assets, end of year	13,160,985	11,960,173
Temporarily restricted net assets:		
Contributions	110,880	47,959
Investment income, net	36,265	100,411
Net assets released from restriction	(47,588)	(1,033,939)
Change in temporarily restricted net assets	99,557	(885,569)
Temporarily restricted net assets, beginning of year	231,199	1,116,768
Temporarily restricted net assets, end of year	330,756	231,199
Change in net assets	1,300,369	1,242,982
Net assets, beginning of year	13,191,372	11,948,390
Net assets, end of year	\$ 14,491,741	\$ 13,191,372

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

**ALIVE HOSPICE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ 1,300,369	\$ 1,242,982
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	417,240	363,630
Net realized and unrealized gains on investments	(45,181)	(83,591)
Loss on disposal of land, buildings and equipment	356	693
(Increase) decrease in:		
Accounts receivable	(496,700)	78,111
Contributions receivable	54,173	734,857
Prepaid expenses and other current assets	(355)	(42,369)
Increase (decrease) in:		
Accounts payable	41,240	114,767
Accrued expenses	199,882	66,391
Bonds interest payable	1,916	11,326
Net cash provided by operating activities	<u>1,472,940</u>	<u>2,486,797</u>
Cash flows from investing activities:		
Purchases of investments	(590,796)	(262,948)
Proceeds from sales of investments	482,671	94,170
Capital expenditures	(359,200)	(279,064)
Net cash used in investing activities	<u>(467,325)</u>	<u>(447,842)</u>
Cash flows from financing activities:		
Payments on bonds	(240,000)	(375,000)
Net cash used in financing activities	<u>(240,000)</u>	<u>(375,000)</u>
Net increase in cash and cash equivalents	765,615	1,663,955
Cash and cash equivalents, beginning of year	<u>2,991,040</u>	<u>1,327,085</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,756,655</u></u>	<u><u>\$ 2,991,040</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u><u>\$ 160,941</u></u>	<u><u>\$ 198,557</u></u>

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



**ALIVE HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Business

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 Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2004 and 2003, the Company exceeded the insured limit by \$3,763,672 and \$2,757,814, respectively.

Patient Service Revenue Recognition

The Organization recognizes revenue for patient care when services are performed. The Organization provides a reserve for estimated losses on accounts receivable in the period deemed uncollectible. The allowance for doubtful accounts is \$342,785 and \$252,880 at December 31, 2004 and 2003, respectively.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a 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 statement of operations as net assets released from restrictions.

Promises to Give

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.



**ALIVE HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Investments

Investments are stated in the aggregate at market value. Investment income is comprised of realized and unrealized gains and losses and interest income.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost or fair market value at date of gift. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in income for the period. A gain on trade-in is applied to reduce the cost of the new acquisition.

Income Tax

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been made. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

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.

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 not included in revenue.

Funds Held By Others

The Nashville Community Foundation holds funds for the benefit of Alive Hospice, Inc. Alive Hospice, Inc. receives the earnings related to these funds; however, the Organization does not own the funds.

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 financial statements and disclosures. Accordingly, actual results could differ from those estimates.

**ALIVE HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Advertising

The Organization's advertising is non-direct, and the costs are expensed as incurred. The Organization incurred \$128,216 and \$85,160 of advertising expense in 2004 and 2003, respectively.

**NOTE 2 - INVESTMENTS**

Investments at December 31, 2004 and 2003 are summarized as follows:

	<b>2004</b>		<b>2003</b>	
	Cost or Donated Value	Market Value	Cost or Donated Value	Market Value
Corporate bonds and notes	\$ 337,028	\$ 353,087	\$ 219,840	\$ 239,624
Equity securities	742,840	848,422	719,152	836,464
U.S. Governmental securities	127,512	145,100	102,752	117,215
	<u>\$ 1,207,380</u>	<u>\$ 1,346,609</u>	<u>\$ 1,041,744</u>	<u>\$ 1,193,303</u>

Investment gain amounted to \$88,448 and \$197,698, respectively, for the years ended December 31, 2004 and 2003. Included in these totals are \$45,181 and \$83,591 respectively of net realized and unrealized gains on investments.

**NOTE 3 - LAND, BUILDINGS AND EQUIPMENT**

The balances of the major classes of land and depreciable assets are summarized as follows:

	<b>2004</b>	<b>2003</b>
Land	\$ 2,608,751	\$ 2,608,751
Building and building improvements	7,992,603	7,898,792
Office furniture and equipment	1,482,007	1,221,559
	<u>12,083,361</u>	<u>11,729,102</u>
Less accumulated depreciation	<u>(2,146,750)</u>	<u>(1,734,095)</u>
	<u>\$ 9,936,611</u>	<u>\$ 9,995,007</u>



**ALIVE HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are summarized as follows:

	2004	2003
Receivable in less than one year	\$ 344,145	\$ 212,548
Receivable in one to five years	<u>98,334</u>	<u>259,173</u>
Total unconditional promises to give	442,479	471,721
Less discounts to net present value	12,458	9,056
Less allowance for uncollectible promises	<u>178,730</u>	<u>157,201</u>
Net unconditional promises to give	<u>\$ 251,291</u>	<u>\$ 305,464</u>

Conditional promises consist of the following:

Bequests and life insurance policies	<u>\$ 1,425,000</u>	<u>\$ 1,425,000</u>
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**NOTE 5 - LINE OF CREDIT**

The Organization has a \$250,000 line of credit with a local bank with a variable interest rate. There was no amount outstanding on this line of credit as of December 31, 2004 or 2003.

**NOTE 6 - BONDS PAYABLE**

In 2001, the Organization, through a loan agreement with The Health and Educational Facilities Board of the Metropolitan Government of Nashville and Davidson County, Tennessee issued revenue bonds in the amount of \$8,100,000. The proceeds were used to finance (1) the acquisition, construction and equipping of a 30-bed in-patient hospice facility located at 1710 Patterson Street in Davidson County, (2) the renovation of the offices of the Organization located at 1718 Patterson Street in Davidson County, (3) the retirement of existing indebtedness of the Organization which was incurred to finance an addition to its office facilities at 1718 Patterson Street, and (4) the provision of updated computer equipment for use in both the in-patient facility and the office facility. The term of the loan agreement extends to July 15, 2019, at which time the principal must be repaid in full. Interest is payable monthly at a variable rate on the outstanding bonds. In conjunction with this agreement, the Organization entered an interest rate swap agreement to swap a part of the fixed rate obligation as floating. Bonds interest payable was \$13,426 and \$11,510 at December 31, 2004 and 2003, respectively. Payments of \$240,000 and \$375,000 were made in 2004 and 2003, respectively. The balance of the bonds payable at December 31, 2004 was \$2,200,000.

This loan agreement contains, among other things, certain financial covenants and ratios. As of December 31, 2004, the Organization was in compliance with the aforementioned financial covenants and ratios.



**ALIVE HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 7 - NET ASSETS**

Temporarily Restricted Net Assets

Funds temporarily restricted by the donors are designated for capital projects, debt service, and various programs offered by the Organization. The total at December 31, 2004 and 2003 was \$330,756 and \$231,199, respectively.

Permanently Restricted Net Assets

Funds donated with permanent restrictions as to use by the Organization totaled \$1,000,000 as of December 31, 2004 and 2003. The donors have stipulated that the investment income be temporarily restricted to support the construction or maintenance of the hospice facilities.

Unrestricted – Board Designated Net Assets

Funds internally designated by the Board of Directors represent non-permanently restricted investments and large contribution receivable balances for which the Board exercises discretion as to the final allocation of these funds. The balance was \$516,345 and \$544,770 at December 31, 2004 and 2003, respectively.

**NOTE 8 - THIRD-PARTY RATE ADJUSTMENTS AND REVENUE**

Approximately 86% and 84% of net patient service revenue in 2004 and 2003, respectively, was derived under federal and state third-party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of the Organization.

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables at December 31, 2004 and 2003, was as follows:

	2004	2003
Medicare	68%	56%
TennCare	18%	17%
Other third-party payors	14%	27%
	<u>100%</u>	<u>100%</u>

**ALIVE HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 9 - CLASSIFICATION OF EXPENSES**

	2004				2003			
	Program Services	Management and General	Fund- raising	Total	Program Services	Management and General	Fund- raising	Total
Expenses:								
Salaries	\$ 5,608,580	\$ 1,768,062	\$ 135,878	\$ 7,512,520	\$ 4,827,373	\$ 1,625,899	\$ 85,376	\$ 6,538,648
Employee benefits	877,272	229,417	19,291	1,125,980	757,936	213,361	12,806	984,103
Payroll taxes	428,989	127,269	10,602	566,860	380,629	121,518	6,466	508,613
Professional fees	12,736	87,762	1,312	101,810	15,019	53,623	906	69,548
Supplies - routine medical	376,700	-	-	376,700	264,880	-	-	264,880
Supplies - office	21,980	54,187	1,716	77,883	10,756	106,752	-	117,508
Supplies - food	80,984	-	-	80,984	78,851	-	-	78,851
Telephone	100,126	60,146	93	160,365	88,536	49,376	-	137,912
Postage	7,811	14,814	16,793	39,418	1,954	17,541	12,831	32,326
Property insurance	59,061	8,157	-	67,218	4,088	57,007	-	61,095
Utilities	287,329	52,858	-	340,187	269,867	30,273	-	300,140
Rent	29,711	7,428	-	37,139	-	7,870	-	7,870
Equipment rental and maintenance	-	133,430	-	133,430	-	143,268	-	143,268
Facility and grounds maintenance	65,506	61,253	-	126,759	-	230,043	-	230,043
Printing and publications	22,950	57,647	8,941	89,538	7,897	27,059	17,664	52,620
Dues and licenses	4,835	41,720	1,085	47,640	2,891	42,328	-	45,219
Advertising	-	26,448	101,768	128,216	-	28,375	56,785	85,160
Mileage	318,556	22,648	140	341,344	281,971	17,832	23	299,826
Conferences and workshops	56,441	57,374	6,408	120,223	20,356	87,962	-	108,318
Direct patient care	5,005,035	-	-	5,005,035	3,495,025	-	-	3,495,025
Special events and other operating expenses	219,530	68,867	21,293	309,690	61,175	85,257	10,901	157,333
Interest expense	-	476	162,382	162,858	-	966	208,916	209,882
Depreciation	226,173	191,067	-	417,240	189,871	173,760	-	363,631
Total expenses	<u>\$ 13,810,305</u>	<u>\$ 3,071,030</u>	<u>\$ 487,702</u>	<u>\$ 17,369,037</u>	<u>\$ 10,759,075</u>	<u>\$ 3,120,070</u>	<u>\$ 412,674</u>	<u>\$ 14,291,819</u>



**ALIVE HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 10 - EMPLOYEE BENEFIT PLANS**

The Organization has a simplified employee pension plan (SEP) whereby the Organization makes discretionary contributions on behalf of all employees who are at least 18 years old with one year of service. The discretionary contributions, based on annual operating results, were \$373,967 and \$349,722 during 2004 and 2003, respectively. While this plan does not provide for employee contributions, the Organization also maintains a 403(b) defined contribution pension plan whereby employees can contribute a portion of their earnings on a pre-tax basis, up to the allowable legal limits. The Organization does not provide matching contributions to this plan.

**NOTE 11 - LEASES**

The Organization leases office space and certain office equipment under various noncancellable operating leases. Total rental expense for all operating leases for the years ended December 31, 2004 and 2003, amounted to \$78,629 and \$72,623, respectively.

As of December 31, 2004, future minimum rental payments remaining under these lease obligations were as follows:

2005	\$ 97,911
2006	99,416
2007	100,959
2008	62,590
2009	20,723
	<u>\$ 381,599</u>