

**ALIVE HOSPICE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2007 AND 2006**

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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, 2007 and 2006, and the related statements of changes in net assets, functional expenses 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, 2007 and 2006, 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 13, 2008

ALIVE HOSPICE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
Cash and cash equivalents:		
Unrestricted	\$ 6,287,728	\$ 5,713,823
Endowment	43,111	137,995
Board restricted	982,134	978,793
Donor restricted	15,317	51,790
Total cash and cash equivalents	<u>7,328,290</u>	<u>6,882,401</u>
Investments:		
Endowment	1,131,157	997,530
Board designated	340,615	311,866
Total investments	<u>1,471,772</u>	<u>1,309,396</u>
Accounts receivable, less allowance for doubtful accounts of \$435,138 in 2007 and \$438,816 in 2006	3,555,431	3,738,433
Contributions receivable:		
Unrestricted	104,670	144,718
Donor restricted	139,000	702,000
Total contributions receivable	<u>243,670</u>	<u>846,718</u>
Prepaid expenses	229,561	160,817
Other current assets	80,468	56,325
Land, buildings and equipment, net	12,234,496	10,866,355
Goodwill	623,093	623,093
Total assets	<u>\$ 25,766,781</u>	<u>\$ 24,483,538</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 833,799	\$ 753,856
Accrued expenses	1,782,115	1,909,667
Mortgage payable	649,444	696,111
Interest payable on bonds	6,563	1,821
Bonds payable	1,720,000	1,720,000
Total liabilities	<u>4,991,921</u>	<u>5,081,455</u>
Net assets:		
Unrestricted:		
Undesignated	19,105,660	17,200,902
Board designated	340,615	311,866
Total unrestricted net assets	<u>19,446,275</u>	<u>17,512,768</u>
Temporarily restricted	328,585	889,315
Permanently restricted	1,000,000	1,000,000
Total net assets	<u>20,774,860</u>	<u>19,402,083</u>
Total liabilities and net assets	<u>\$ 25,766,781</u>	<u>\$ 24,483,538</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, 2007 AND 2006

	2007	2006
Unrestricted net assets:		
Revenue, gains and other support:		
Net patient service revenue	\$ 28,856,162	\$ 24,826,067
Contributions	2,257,332	1,696,533
Investment income	32,872	132,687
Other	219,399	354,318
Net assets released from restrictions	<u>855,640</u>	<u>268,773</u>
Total revenue, gains and other support	<u>32,221,405</u>	<u>27,278,378</u>
Expenses:		
Program services	24,303,126	20,420,950
Management and general	5,560,235	4,458,458
Fundraising	<u>424,537</u>	<u>571,651</u>
Total expenses	<u>30,287,898</u>	<u>25,451,059</u>
Change in unrestricted net assets	1,933,507	1,827,319
Unrestricted net assets, beginning of year	<u>17,512,768</u>	<u>15,685,449</u>
Unrestricted net assets, end of year	<u>19,446,275</u>	<u>17,512,768</u>
Temporarily restricted net assets:		
Contributions	190,859	760,390
Investment income, net	104,051	104,099
Net assets released from restriction	<u>(855,640)</u>	<u>(268,773)</u>
Change in temporarily restricted net assets	(560,730)	595,716
Temporarily restricted net assets, beginning of year	<u>889,315</u>	<u>293,599</u>
Temporarily restricted net assets, end of year	<u>328,585</u>	<u>889,315</u>
Change in net assets	1,372,777	2,423,035
Net assets, beginning of year	<u>19,402,083</u>	<u>16,979,048</u>
Net assets, end of year	<u><u>\$ 20,774,860</u></u>	<u><u>\$ 19,402,083</u></u>

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

ALIVE HOSPICE, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007			2006
	Program Services	Management and General	Fund -raising	Total
Salaries	\$ 10,264,374	\$ 2,739,020	\$ 217,785	\$ 13,221,179
Direct patient care	7,573,834	-	-	7,573,834
Benefits and workers comp	1,811,850	284,224	-	2,096,074
Payroll taxes	754,768	192,887	16,723	964,378
Depreciation	433,829	369,111	5,505	808,445
Facility and grounds maintenance	640,539	82,780	4,560	727,879
Rent	557,931	24,824	27,980	610,735
Mileage	533,904	59,972	2,084	595,960
Medical supplies	518,073	-	-	518,073
Professional fees	92,895	327,972	3,000	423,867
Telephone	283,504	100,292	784	384,580
Office and program supplies	94,813	172,727	79,727	347,267
Advertising	-	315,210	11,342	326,552
Equipment rental and maintenance	131,609	161,675	5,854	299,138
Utilities	146,127	50,105	2,673	198,905
Conferences and workshops	53,098	132,363	5,075	190,536
Dietary supplies	172,491	-	-	172,491
Interest, fees and bond expense	-	152,583	-	152,583
Insurance	92,808	43,727	-	136,535
Printing and publications	42,800	68,240	22,126	133,166
Bad debt expense	51,063	48,721	-	99,784
Dues and licenses	12,561	72,651	859	86,071
Postage	14,713	40,640	13,125	68,478
Other operating expenses	25,542	120,511	5,335	151,388
Total expenses	\$ 24,303,126	\$ 5,560,235	\$ 424,537	\$ 30,287,898

\$ 25,451,059

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

ALIVE HOSPICE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 1,372,777	\$ 2,423,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	808,445	586,437
Net realized and unrealized gains on investments	(25,181)	(123,206)
Loss on disposal of land, buildings and equipment	9,953	-
(Increase) decrease in:		
Accounts receivable	183,002	536,415
Contributions receivable	19,061	(564,292)
Prepaid expenses	(68,744)	(13,814)
Other current assets	(24,143)	87,137
Increase (decrease) in:		
Accounts payable	79,943	(71,217)
Accrued expenses	(127,552)	311,782
Interest payable on bonds	4,742	(7,197)
Net cash provided by operating activities	<u>2,232,303</u>	<u>3,165,080</u>
Cash flows from investing activities:		
Purchases of investments	(1,581,634)	(238,331)
Proceeds from sales of investments	1,444,439	409,979
Capital expenditures	(1,602,552)	(1,499,344)
Net cash used in investing activities	<u>(1,739,747)</u>	<u>(1,327,696)</u>
Cash flows from financing activities:		
Mortgage borrowings	-	700,000
Payments on mortgage	(46,667)	(3,889)
Payments on bonds	-	(480,000)
Net cash (used in) provided by financing activities	<u>(46,667)</u>	<u>216,111</u>
Net increase in cash and cash equivalents	445,889	2,053,495
Cash and cash equivalents, beginning of year	<u>6,882,401</u>	<u>4,828,906</u>
Cash and cash equivalents, end of year	<u><u>\$ 7,328,290</u></u>	<u><u>\$ 6,882,401</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	<u><u>\$ 121,324</u></u>	<u><u>\$ 109,213</u></u>
Non-cash transaction:		
Capitalization of non-cash donation of equipment	<u><u>\$ 583,987</u></u>	<u><u>-</u></u>

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

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007 AND 2006

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, temporarily restricted, 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 statements 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 per financial institution. At December 31, 2007 and 2006, the Company exceeded the insured limit by \$6,999,763 and \$6,895,469, respectively.

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.

Investments

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

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill is recognized for the excess of the purchase price over the fair market value of tangible and identifiable intangible net assets of businesses acquired. Goodwill is reviewed annually for impairment under the policy for long-lived assets.

Patient Service Revenue Recognition

The Organization recognizes revenue for patient care when services are performed. The Organization provides an allowance for estimated losses on accounts receivable in the period deemed uncollectible.

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 statements of changes in net assets as net assets released from restrictions.

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.

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.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Advertising

The Organization's advertising is non-direct, and the costs are expensed as incurred. The Organization incurred \$326,552 and \$189,946 of advertising expense in 2007 and 2006, respectively.

NOTE 2 - INVESTMENTS

Investments at December 31 are summarized as follows:

	2007		2006	
	Cost or Donated Value	Market Value	Cost or Donated Value	Market Value
Fixed income securities	\$ 517,735	\$ 522,797	\$ 411,903	\$ 407,296
Equity securities	961,114	948,975	707,972	902,100
	<u>\$1,478,849</u>	<u>\$1,471,772</u>	<u>\$1,119,875</u>	<u>\$1,309,396</u>

Investment income amounted to \$136,923 and \$236,786, respectively, for the years ended December 31, 2007 and 2006. Included in these totals are net realized and unrealized gains of \$25,181 and \$123,206, in 2007 and 2006, respectively.

NOTE 3 - LAND, BUILDINGS AND EQUIPMENT

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

	2007	2006
Land	\$ 2,878,251	\$ 2,878,251
Building and building improvements	9,944,480	8,983,144
Office furniture and equipment	<u>3,279,443</u>	<u>2,207,968</u>
	16,102,174	14,069,363
Less accumulated depreciation	<u>(3,867,678)</u>	<u>(3,203,008)</u>
	<u>\$12,234,496</u>	<u>\$10,866,355</u>

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2007	2006
Receivable in less than one year	\$ 73,354	\$ 690,000
Receivable in one to five years	170,316	156,718
Total unconditional promises to give	<u>\$ 243,670</u>	<u>\$ 846,718</u>

Conditional promises consist of the following:

Bequests and life insurance policies	<u>\$ 1,475,000</u>	<u>\$ 1,475,000</u>
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As of December 31, 2006, contributions receivable in less than one year included a promised in-kind donation of computers, software, and training in the amount of \$600,000 which was received in 2007. This amount was also included in the temporarily restricted contributions on the statements of changes in net assets and in the temporarily restricted net assets on the statements of financial position.

NOTE 5 - MORTGAGE PAYABLE

Mortgage payable consists of a note payable to Bank of America, bearing interest at the LIBOR fixed rate (5.85% and 6.35% at December 31, 2007 and 2006, respectively), secured by real property of the Organization, with monthly principal payments of \$3,889 plus interest. The loan matures on November 21, 2021. The balance at December 31, 2007 was \$649,444.

Scheduled repayments on the mortgage are as follows:

Year End December 31,

2008	\$ 46,668
2009	46,668
2010	46,668
2011	46,668
2012	46,668
Thereafter	<u>416,104</u>
Total	<u>\$ 649,444</u>

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2007 AND 2006

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. Payments for swap agreement of \$20,638 and \$30,025 are included in interest expense for the years ended December 31, 2007 and 2006, respectively. Interest payable on the bonds was \$6,563 and \$1,821 at December 31, 2007 and 2006, respectively. Principal payments of \$480,000 were made in 2006.

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, 2007 and 2006 was \$328,585 and \$889,315, respectively.

Permanently Restricted Net Assets

Funds donated with permanent restrictions as to use by the Organization totaled \$1,000,000 as of December 31, 2007 and 2006. 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 for which the Board exercises discretion as to the final allocation of these funds. The balance was \$340,615 and \$311,866 at December 31, 2007 and 2006, respectively.

ALIVE HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 8 - THIRD-PARTY RATE ADJUSTMENTS AND REVENUE

Approximately 87% of net patient service revenue in both 2007 and 2006 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, 2007 and 2006 was as follows:

	2007	2006
Medicare	52%	58%
TennCare	24%	25%
Other third-party payors or self-pay	24%	17%
	<u>100%</u>	<u>100%</u>

NOTE 9 - EMPLOYEE BENEFIT PLANS

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 Company contributions plus related earnings after four years of service. Contribution expense in 2007 and 2006 was \$491,221 and \$783,949, respectively.

NOTE 10 - 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, 2007 and 2006, amounted to \$528,077 and \$428,164, respectively.

As of December 31, 2007, future minimum rental payments remaining under these lease obligations were as follows:

2008	\$ 751,492
2009	712,441
2010	<u>601,814</u>
	<u>\$2,065,747</u>