

HOSPICE OF THE COMFORTER, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2009 AND 2008

HOSPICE OF THE COMFORTER, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hospice of the Comforter, Inc.
Altamonte Springs, Florida

We have audited the accompanying balance sheets of Hospice of the Comforter, Inc. as of December 31, 2009 and 2008, 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 the management of Hospice of the Comforter, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 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 Hospice of the Comforter, Inc. as of December 31, 2009 and 2008, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads "Jason Allen LLP". The signature is written in a cursive style.

LarsonAllen LLP

Orlando, Florida
April 20, 2010



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a worldwide network of independent accounting and consulting firms.

HOSPICE OF THE COMFORTER, INC.
BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

ASSETS	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,361,671	\$ 59,190
Investments	4,813,626	3,068,465
Accounts Receivable, Net	2,297,700	3,668,679
Current Portion of Pledges Receivable	119,989	177,916
Inventories	234,220	212,935
Prepaid Expenses and Other Current Assets	318,765	74,276
Total Current Assets	<u>9,145,971</u>	<u>7,261,461</u>
PROPERTY AND EQUIPMENT, NET	19,008,499	18,599,632
PLEDGES RECEIVABLE, NET	135,819	88,477
BOND FINANCING COSTS, NET	<u>255,173</u>	<u>198,764</u>
Total Assets	<u>\$ 28,545,462</u>	<u>\$ 26,148,334</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Bonds Payable	\$ 445,000	\$ 435,000
Accounts Payable	898,597	719,304
Accrued Payroll and Related Costs	1,048,712	1,498,569
Accrued Retirement Expense	775,000	683,437
Third-Party Payor Liabilities	475,886	475,581
Other Liabilities and Accruals	271,069	479,400
Total Current Liabilities	<u>3,914,264</u>	<u>4,291,291</u>
BONDS PAYABLE	8,735,000	9,180,000
INTEREST RATE SWAP CONTRACT	428,132	560,421
NET ASSETS		
Unrestricted	15,212,258	11,850,229
Temporarily Restricted	255,808	266,393
Total Net Assets	<u>15,468,066</u>	<u>12,116,622</u>
Total Liabilities and Net Assets	<u>\$ 28,545,462</u>	<u>\$ 26,148,334</u>

See accompanying Notes to Financial Statements.

HOSPICE OF THE COMFORTER, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 3,351,444	\$ 2,002,883
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Unrealized (Gain) Loss on Investments	(14,731)	5,327
Depreciation and Amortization	1,028,236	920,609
Provision for Uncollectible Accounts	136,921	190,523
(Increase) Decrease in Assets:		
Accounts Receivable	1,234,058	(1,052,545)
Pledges Receivable	10,585	38,936
Inventories	(21,285)	(102,650)
Prepaid Expenses and Other Current Assets	(274,808)	533,603
Increase (Decrease) in Liabilities:		
Accounts Payable	228,838	(1,745,312)
Accrued Payroll and Related Costs	(449,857)	352,353
Accrued Retirement Expense	91,563	126,491
Third-Party Payor Liabilities	305	162,017
Other Current Liabilities and Accruals	(340,620)	370,895
Net Cash Provided by Operating Activities	<u>4,980,649</u>	<u>1,803,130</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(1,440,781)	(2,024,416)
(Purchases) Sales of Investments, Net	(1,730,430)	549,413
Net Cash Used in Investing Activities	<u>(3,171,211)</u>	<u>(1,475,003)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on Bond Payable	(435,000)	(420,000)
Payments of Financing Costs	(71,957)	-
Net Cash Used in Financing Activities	<u>(506,957)</u>	<u>(420,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,302,481	(91,873)
Cash and Cash Equivalents - Beginning of Year	<u>59,190</u>	<u>151,063</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,361,671</u>	<u>\$ 59,190</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest	<u>\$ 355,386</u>	<u>\$ 339,401</u>

See accompanying Notes to Financial Statements.

HOSPICE OF THE COMFORTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 3,351,444	\$ 2,002,883
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Unrealized (Gain) Loss on Investments	(14,731)	5,327
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 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest	\$ 355,386	\$ 339,401

See accompanying Notes to Financial Statements.

**HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hospice of the Comforter, Inc. (the "Organization") is a nonprofit Corporation providing hospice services in Seminole, Osceola and Orange Counties, Florida, for terminally ill patients, and any other related or corresponding charitable purposes by the distribution of its funds for such purposes. Teams consisting of nurses, aides, trained volunteers, social workers and chaplains are available 24 hours a day, 7 days a week to provide physical, emotional and spiritual care to the patient and patient's family. Bereavement support is provided to the family after the patient's death.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Basis of Presentation

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - Those resources over which the Board of Directors has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

Temporarily Restricted - Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

The Organization receives resources from donors that could be temporarily restricted for operations or specific capital additions. Temporarily restricted contributions expended in the year of receipt are recognized as unrestricted contributions.

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization.

The Organization has no permanently restricted net assets at December 31, 2009 and 2008.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all financial instruments purchased with an original maturity of three months or less, and not limited as to use, to be cash equivalents.

**HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Accounts Receivable and Allowance for Uncollectible Accounts

The Organization's accounts receivable are uncollateralized and primarily consist of Medicare, Medicaid and other third-party payors. Management does not believe there are significant credit risks associated Medicare and Medicaid. With respect to the remaining portion of accounts receivable, management estimates an allowance for uncollectible accounts, based on historical collection experience and a review of the current status of the existing receivables. Accounts are written off after all collection efforts have been exhausted. The Organization's estimate of the allowance for uncollectible accounts was approximately \$85,000 and \$103,000 at December 31, 2009 and 2008, respectively.

Pledges Receivable

Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is to be received. Amortization of the discount is included in contribution revenue. The discount rate used for new pledges receivable was 2.69% and 5.00% for 2009 and 2008, respectively.

Investments

Investments held by the Organization are classified as other than trading securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including interest and dividends and realized gains and losses on investments) is included in operating income (loss) unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments, if any, are included other changes in unrestricted net assets in the accompanying financial statements.

Generally, investments are maintained in unrestricted accounts and can be fully utilized for designated operations of the Organization.

Property and Equipment

Property and equipment acquisitions are recorded at cost, if purchased or at fair market value on the date received, if donated. Capital expenditures greater than \$1,000 are capitalized and depreciated over the life of the asset. Capital expenditures less than \$1,000 are expensed when incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, in accordance with the American Hospital Association guide for depreciable lives, as follows:

Buildings and improvements	15 – 40 years
Furniture and equipment	7 years
Vehicles	5 years

HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Derivative Instruments

The Organization utilizes derivative instruments in the form of an interest rate swap contract to reduce its exposure to the market risk from changes in interest rates. The Organization records the interest rate swap contract on its balance sheet at fair value and all changes in fair value in the statement of operations as change in fair value of interest rate swap contract. The Organization has not designated the interest rate swap contract as a hedge.

Donor-Restricted Funds

Unconditional promises to give cash or other assets are reported at fair value at the date the promises are received. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements. Property and equipment donations are recorded directly to equity as unrestricted assets.

Revenue Recognition

Medicare and Medicaid Revenue

Revenue for services rendered to patients covered under the Medicare and Medicaid program are recorded based on date of service at amounts equal to payment rates specific to the Organization that are set by the Medicare and Medicaid program. The payment rates are daily or hourly rates for each of the four levels of care provided by the Organization (i.e. routine care, general inpatient care, continuous care and respite care). Adjustments are made to revenue for the inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. The Organization estimates the impact of these adjustments based on historical experience, which primarily includes historical collection rates on claims, and records it during the period services are rendered as an estimated revenue adjustment and as a reduction to patient accounts receivable.

Additionally, the Organization's reimbursement from Medicare is subject to an inpatient cap limit and an overall payment cap. The Organization monitors its provider numbers and estimated amounts due back to Medicare if a cap has been exceeded. These adjustments are recorded as a reduction to revenue and an increase in other accrued liabilities. As of December 31, 2009 and 2008, the Organization determined that it did not have an overpayment liability related to the inpatient cap limit.

HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Revenue Recognition (Continued)

Other Third-Party Payor Revenue

Revenue for services rendered to patients covered by other third-party payors (e.g. commercial insurance carriers, health maintenance organizations, and preferred provider organizations, etc.) are recorded based on date of service at amounts equal to the Organization's established rate or a rate negotiated with the third-party payor. Contractual adjustments are recorded for the difference between the Organization's established rate and the amounts estimated to be realized from third-party payors and are deducted from revenues and patient accounts receivable.

Charity Care

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Key elements used to determine eligibility include a patient's demonstrated inability to pay based on family size and household income related to federal income poverty guides. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Organization's charity care policy aggregated approximately \$845,000 and \$558,000 for the years ended December 31, 2009 and 2008, respectively.

Contributed Services

Contributed professional services are recognized if the services received create or enhance long-lived assets or require specialized skills that would typically need to be purchased if not otherwise provided. These services are recognized at fair market value when received.

Additionally, the Organization receives a significant amount of contributed time which does not meet either of the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and its value is not reflected in the accompanying financial statements.

Fair Value Measurements

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

**HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value Measurements (Continued)

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") with exemption from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Organization's income tax returns are subject to review and examination by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status. The Organization is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes. The tax returns for the fiscal years ended 2006 to 2009 are open to examination by federal and state authorities.

Reclassifications

Certain items in the 2008 financial statements have been reclassified for comparability purposes with the 2009 financial statements. These reclassifications did not affect the financial position or results of operations as previously reported.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 20, 2010, the date the financial statements were available to be issued.

**HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2009 were as follows:

Due in Less than One Year	\$ 119,989
Due in Two to Four Years	197,647
Due in Five to Ten Years	<u>10,631</u>
	328,267
Less: Discount to Present Value	<u>(13,677)</u>
Pledges Receivable	314,590
Current Portion	<u>(119,989)</u>
Estimated Uncollectible	<u>(58,782)</u>
Pledges Receivable, Net	<u><u>\$ 135,819</u></u>

NOTE 3 INVESTMENTS

The composition of investments at December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Fixed Income Securities		
U.S. Government and Agency Obligations	\$ 366,642	\$ 313,253
U.S. Corporate Obligations	-	584,308
Bond Funds	2,880,965	52,099
Equity Securities		
Preferred Stock	51,380	88,473
Certificates of Deposit	1,514,639	1,248,403
Money Market Funds	-	781,929
Total	<u><u>\$ 4,813,626</u></u>	<u><u>\$ 3,068,465</u></u>

The composition of investment income for the years ended December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Interest and Dividends	\$ 86,160	\$ 111,174
Realized Gains (Losses)	29,671	-
	<u><u>\$ 115,831</u></u>	<u><u>\$ 111,174</u></u>

HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 4 PROPERTY AND EQUIPMENT

The components of property and equipment at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Non-depreciable Assets:		
Land	\$ 2,490,450	\$ 2,479,545
Depreciable Assets:		
Software Licenses	222,006	106,820
Furniture and Fixtures	3,666,387	2,708,537
Vehicles	339,728	305,213
Building	15,438,344	15,668,533
	<u>22,156,915</u>	<u>21,268,648</u>
Less: Accumulated Depreciation	<u>(3,547,696)</u>	<u>(2,669,016)</u>
	18,609,219	18,599,632
Construction in Progress	399,280	-
Property and Equipment, Net	<u>\$ 19,008,499</u>	<u>\$ 18,599,632</u>

Construction in progress represents building renovations. Estimated cost to complete these projects was approximately \$150,000 at December 31, 2009 and will be funded by operations. Depreciation expense totaled approximately \$982,000 and \$803,000 for the years ended December 31, 2009 and 2008, respectively.

NOTE 5 BONDS PAYABLE

The following is a summary of the Organizations' bonds payable at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
\$10,980,000 Industrial Development Authority, Healthcare Facilities Revenue bonds; interest payable monthly at a floating rate with principal payable in annual installments of \$435,000 to \$720,000 through May 2026.	\$ 9,180,000	\$ 9,615,000
Less: Current Portion	<u>(445,000)</u>	<u>(435,000)</u>
Long-term Portion	<u>\$ 8,735,000</u>	<u>\$ 9,180,000</u>

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

<u>Year Ended December 31,</u>	
2010	\$ 445,000
2011	460,000
2012	475,000
2013	490,000
2014	510,000
Thereafter	<u>6,800,000</u>
Total	<u>\$ 9,180,000</u>

**HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

NOTE 5 BONDS PAYABLE (CONTINUED)

The Organization has obtained a letter of credit agreement from Fifth Third Bank (the Bank). The letter of credit agreement provides, among other things, that in the event the bonds are put by the bond holders, the Bank would purchase the bonds at rates that vary with the Prime rate. The Organization's obligation to the Bank would be payable in accordance with the original maturities of the bonds over the remaining term of the letter of credit agreement, with the remaining amount due upon expiration of the letter of credit agreement, which is May 2011. There were no amounts outstanding under the letter of credit at December 31, 2009.

The Organization has entered into an interest rate swap contract with the Bank to convert a portion of its variable interest payments to a fix rate thru August 1, 2016. The interest rate swap contract provides for the Organization to receive interest at a variable rate of USD-BMA Municipal Swap Index and pay interest at a fixed rate 4.36% on the contract's notional amount, which was \$4,280,000 and \$4,379,000 at December 31, 2009 and 2008, respectively.

The agreements underlying the bonds have granted a security interest in all of the Organization's tangible and intangible property. In the addition, the agreements underlying the bonds require the Organization to maintain certain minimum financial ratios. The Organization is not aware of any violations of these covenants at December 31, 2009.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31, 2009 and 2008:

	2009	2008
Pledges Receivable	\$ 255,808	\$ 266,393

NOTE 7 OPERATING LEASES

The Organization leases various items of equipment under non-cancellable operating lease arrangements. These leases expire in various years through 2011.

Future minimum lease payments at December 31, 2009 are as follows:

2010		\$ 49,272
2011		25,835
		\$ 75,107

HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 8 EMPLOYEE BENEFITS

The Organization established a 401(k) plan (the Plan) that is a defined contribution plan for all eligible employees that have completed one year of service and are at least eighteen years of age. Under the terms of the Plan, contributions are made to the Plan on an annual basis in amounts that are determined at the discretion of the Board of Directors and are based on position and the number of years of service. Participants in the Plan become fully vested in these contributions after five years of service. The Plan also has a salary reduction feature. For the years ended December 31, 2009 and 2008, the expense related to the Plan amounted to \$238,206 and \$142,758, respectively.

NOTE 9 CONCENTRATIONS OF CREDIT RISK

At December 31, 2009, the Organization was exposed to credit risk arising from cash deposits at one financial institution that exceeded the FDIC insurance limit of \$250,000 per institution. Management believes that these financial institutions' strong credit ratings result in only minimal credit risk related to these deposits. Several of the Certificate of Deposits were collateralized and the Organization thus received a reduced interest rate due to this agreement.

The Organization also grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	72%	57%
Medicaid	15%	32%
Commercial and Other	13%	11%
	<u>100%</u>	<u>100%</u>

NOTE 10 FUNCTIONAL EXPENSES

Program and general expenses for the years ended December 31, 2009 and 2008, are summarized as follows:

	<u>2009</u>	<u>2008</u>
Program Service	\$ 36,557,354	\$ 30,612,847
Management and Administrative	6,571,187	5,502,661
Fundraising	679,374	568,902
Total Expenses	<u>\$ 43,807,915</u>	<u>\$ 36,684,411</u>

HOSPICE OF THE COMFORTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Measured at Fair Value on a Recurring Basis

The following table presents the fair value hierarchy for the balances of the financial assets and liabilities of the Organization measured at fair value on a recurring basis as of December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
U.S. Government and Agency Obligations	\$ -	\$ 366,642	\$ -	\$ 366,642
Bond Funds	2,880,965	-	-	2,880,965
Preferred Stock	51,380	-	-	51,380
Certificates of Deposit	1,514,639	-	-	1,514,639
	<u>\$ 4,446,984</u>	<u>\$ 366,642</u>	<u>\$ -</u>	<u>\$ 4,813,626</u>
Liabilities:				
Interest Rate Swap Contract	<u>\$ -</u>	<u>\$ 428,132</u>	<u>\$ -</u>	<u>\$ 428,132</u>

The following table presents the fair value hierarchy for the balances of the financial assets and liabilities of the Organization measured at fair value on a recurring basis as of December 31, 2008:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
U.S. Government and Agency Obligations	\$ 313,253	\$ -	\$ -	\$ 313,253
U.S. Corporate Obligations	584,308	-	-	584,308
Bond Funds	52,099	-	-	52,099
Preferred Stock	88,473	-	-	88,473
Certificates of Deposit	1,248,403	-	-	1,248,403
Money Market Funds	781,929	-	-	781,929
	<u>\$ 3,068,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,068,465</u>
Liabilities:				
Interest Rate Swap Contract	<u>\$ -</u>	<u>\$ 560,421</u>	<u>\$ -</u>	<u>\$ 560,421</u>

Inputs used in the determination of fair value for investments classified as Level 1 are price quotations in active markets/exchanges for identical assets. Inputs used in the determination of fair value for investments classified as Level 2 are price quotations for similar instruments. The Organization's interest rate swap contract is classified as Level 2, as it is not actively traded and is valued using pricing models that used observable market inputs such as interest rates and yield curves.

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NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Other Financial Instruments

The fair value of certain of the Organization's financial instruments that are not measured at fair value, including cash and cash equivalents, patient receivables, other receivables, and accounts payable, approximated the carrying amount because of the short-term nature of these instruments. The fair value of the Organization's debt is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The estimated fair value of the Organization's bonds payable, as of December 31, 2009 and 2008 was approximately \$9,200,000 and \$9,600,000, respectively.

NOTE 12 COMMITMENTS AND CONTINGENCIES

The Organization is subject to legal proceedings and claims which arise in the course of providing health care services. The Organization purchases malpractice insurance on an occurrence basis and excess liability insurance coverage from a commercial insurance company. In management's opinion, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liabilities.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.