

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

**HOSPICE OF THE COMFORTER, INC.
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YEAR ENDED DECEMBER 31, 2008**

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CPAs, Consultants & Advisors
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Hospice of the Comforter, Inc. as of December 31, 2008, and the related statements of operations, changes in net assets, and cash flows for the year 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

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

As described in Note 16 to the financial statements, Hospice of the Comforter, Inc. recorded certain corrections to properly report Net Assets balances as of January 1, 2008.

A handwritten signature in black ink that reads "LarsonAllen LLP".

LarsonAllen LLP

Orlando, Florida
May 27, 2009



LarsonAllen LLP is a member of Nexia International,
a worldwide network of independent accounting and consulting firms.

**HOSPICE OF THE COMFORTER, INC.
BALANCE SHEET
DECEMBER 31, 2008**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	59,190
Certificates of Deposit		248,403
Accounts Receivable, Net of Allowance for Uncollectible Accounts of Approximately \$103,000		3,668,679
Current Portion of Pledges Receivable		177,916
Inventories		212,935
Prepaid Expenses and Other Current Assets		74,276
Total Current Assets		4,441,399

INVESTMENTS

2,820,062

PROPERTY AND EQUIPMENT, NET

18,599,632

PLEDGES RECEIVABLE, NET

88,477

BOND FINANCING COSTS, NET

198,764

Total Assets

\$ 26,148,334

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current Portion of Bonds Payable	\$	435,000
Accounts Payable		719,304
Accrued Payroll and Related Costs		1,498,569
Accrued Retirement Expense		683,437
Third-Party Payor Liabilities		475,581
Other Liabilities and Accruals		479,400
Total Current Liabilities		4,291,291

BONDS PAYABLE

9,180,000

INTEREST RATE SWAP LIABILITY

560,421

NET ASSETS

Unrestricted		11,850,229
Temporarily Restricted		266,393
Total Net Assets		12,116,622

Total Liabilities and Net Assets

\$ 26,148,334

See accompanying Notes to Financial Statements.

HOSPICE OF THE COMFORTER, INC.
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2008

UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT

Net Patient Service Revenue	\$ 37,383,851
Contributions for Operations	1,835,307
Net Assets Released from Restrictions for Operations	38,936
Investment Income	111,174
Other Revenue	<u>167,720</u>
Total Unrestricted Revenues, Gains and Other Support	<u>39,536,988</u>

EXPENSES

Professional Care of Patients	25,192,058
General and Administrative	10,599,511
Provision for Uncollectible Accounts	190,523
Interest	339,401
Depreciation and Amortization	<u>920,609</u>
Total Expenses	<u>37,242,102</u>

Excess of Revenue over Expenses 2,294,886

OTHER CHANGES IN UNRESTRICTED NET ASSETS

Unrealized Loss on Investments	(5,327)
Loss on Interest Rate Swap Agreement	<u>(247,740)</u>
Total Other Changes in Unrestricted Net Assets	<u>(253,067)</u>

Increase in Unrestricted Net Assets \$ 2,041,819

See accompanying Notes to Financial Statements.

**HOSPICE OF THE COMFORTER, INC.
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2008**

UNRESTRICTED NET ASSETS

Excess of Revenue Over Expenses	\$ 2,294,886
Unrealized Loss on Investments	(5,327)
Loss on Interest Rate Swap Agreement	(247,740)
Increase in Unrestricted Net Assets	2,041,819

TEMPORARILY RESTRICTED NET ASSETS

Net Assets Released from Restrictions for Operations	(38,936)
Decrease in Temporarily Restricted Net Assets	(38,936)

Increase in Net Assets	2,002,883
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Net Assets - Beginning of Year, as Previously Reported	11,582,703
Prior Period Adjustments (See Note 16)	(1,468,964)
Net Assets - Beginning of Year, as Restated	10,113,739

NET ASSETS - END OF YEAR	\$ 12,116,622
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See accompanying Notes to Financial Statements.

**HOSPICE OF THE COMFORTER, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in Net Assets	\$ 2,002,883
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	920,609
Provision for Uncollectible Accounts	190,523
(Increase) Decrease in Assets:	
Accounts Receivable	(1,052,545)
Pledges Receivable	38,936
Inventories	(102,650)
Prepaid Expenses and Other Current Assets	533,603
Increase (Decrease) in Liabilities:	
Accounts Payable	(1,745,312)
Accrued Payroll and Related Costs	352,353
Accrued Retirement Expense	126,491
Third-Party Payor Liabilities	162,017
Other Current Liabilities and Accruals	370,895
Net Cash Provided by Operating Activities	<u>1,797,803</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment	(2,024,416)
Proceeds from Certificates of Deposit	251,597
Purchases of Certificates of Deposit	(1,500,000)
Proceeds from Redemption of Investments	6,093,357
Purchases of Investments	(4,290,214)
Net Cash Used in Investing Activities	<u>(1,469,676)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payment on Bond Payable	(420,000)
Net Cash Used in Financing Activities	<u>(420,000)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(91,873)

Cash and Cash Equivalents - Beginning of Year

151,063

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 59,190

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash Paid for Interest	<u><u>\$ 339,401</u></u>
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See accompanying Notes to Financial Statements.

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

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

Allowance for Uncollectible Accounts

The Organization provides an allowance for uncollectible accounts. Self-pay, Medicaid and Commercial accounts over three months old are individually analyzed and then written off if deemed uncollectible. An allowance is estimated for accounts receivable based on historical experience and management's judgment.

Pledges Receivable

Pledges to give 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 5.00% for 2008.

Assets Limited as to Use

Assets limited as to use primarily include assets received by the Organization with donor imposed restrictions. Amounts required for capital improvements are classified as long-term.

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 ending 2005 to 2008 are open to examination by federal and state authorities.

Effective January 1, 2008, the Organization adopted the provisions of FASB issued Interpretation No. 48, ("FIN 48"), *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109*, ("SFAS 109"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with SFAS 109. FIN 48 prescribes a recognition threshold and measurement principles for financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of FIN 48 had no impact on the Organization's financial statements.

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

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

Investments

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 excluded from operating income (loss).

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

Derivative Instruments

The change in value of the interest rate swap agreements is recorded under the caption "Other Changes in Net Assets" on the statement of operations.

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.

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.

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

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

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.

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.

New Accounting Pronouncements

On January 1, 2008, the Organization adopted the Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (FAS 157). As permitted, adoption of SFAS 157 has been delayed for certain nonfinancial assets and nonfinancial liabilities to January 1, 2009. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. SFAS 157 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.

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.

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

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

New Accounting Pronouncements (Continued)

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.

The Organization also adopted Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159) on January 1, 2008. SFAS 159 allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Organization has not elected to measure any existing financial instruments at fair value at January 1, 2008, as permitted under SFAS 159. However, the Organization may elect to measure newly acquired financial instruments at fair value in the future.

NOTE 2 NET PATIENT SERVICE REVENUE

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts that generally differ from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid

Hospice services rendered to Medicare and Medicaid program beneficiaries are paid at specific rates per hospice day. These rates vary according to the type of hospice service provided. This daily rate covers all non-curative costs associated with the terminal care of patients.

Other Payors

The Organization has also entered into payment agreements with certain commercial insurance carriers and private payors. The basis for payment to the Organization under these agreements is based on negotiated rates, generally a percentage of charges after patient deductibles.

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

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable as of December 31, were as follows:

Due in Less than One Year	\$ 177,916
Due in Two to Four Years	196,103
Due in Five to Ten Years	3,952
	<u>377,971</u>
Less: Discount to Present Value	<u>(32,204)</u>
Pledges Receivable	345,767
Current Portion	(177,916)
Estimated Uncollectible	<u>(79,374)</u>
Pledges Receivable, Net	<u>\$ 88,477</u>

NOTE 4 INVESTMENTS

Investments held by the Organization are classified as trading securities and consist of money market funds, certificates of deposit and certain government and corporate fixed income securities and are stated at market value.

Unrealized gains and losses associated with trading securities are included in earnings on a current basis. The following table summarizes the Organization's investments at December 31:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Money Market Funds	\$ 781,929	\$ 781,929	\$ -
Certificate of Deposit Accounts	1,000,000	1,000,000	-
Corporate Bonds and Bond Funds	945,940	949,660	3,720
Preferred Stock	<u>97,521</u>	<u>88,473</u>	<u>(9,047)</u>
Total	<u>\$ 2,825,390</u>	<u>\$ 2,820,062</u>	<u>\$ (5,327)</u>

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

NOTE 5 PROPERTY AND EQUIPMENT

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

Non-depreciable Assets:	
Land	\$ 2,479,545
Depreciable Assets:	
Software Licenses	106,820
Furniture and Fixtures	2,708,537
Vehicles	305,213
Building	15,668,533
	<u>21,268,648</u>
Less: Accumulated Depreciation	(2,669,016)
Property and Equipment, Net	<u><u>\$ 18,599,632</u></u>

NOTE 6 BONDS PAYABLE

\$10,980,000 Industrial Development Authority, Healthcare Facilities Revenue bonds issued in connection with the construction of an in-patient facility. Interest payments payable monthly at 4.36% until 8/1/2016, a floating rate thereafter. Principal is payable in annual installments of \$435,000 to \$720,000, through May, 2026.

The bonds are secured by a letter of credit. \$ 9,615,000

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

<u>Year Ended December 31,</u>	<u>Revenue Bonds Payable</u>
2009	\$ 435,000
2010	445,000
2011	460,000
2012	475,000
2013	490,000
Thereafter	<u>7,310,000</u>
Total Bonds Payable	\$ 9,615,000
Current Portion	<u>(435,000)</u>
Bonds Payable	<u><u>\$ 9,180,000</u></u>

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

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31:

Pledges Receivable	<u>\$ 266,393</u>
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NOTE 8 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 for the years ended December 31, are as follows:

2009	\$ 50,079
2010	49,272
2011	<u>25,835</u>
	<u>\$ 125,186</u>

NOTE 9 EMPLOYEE BENEFITS

The Organization established a 401(k) plan (the Plan) that is a defined contribution plan effective January 1, 2006. It is established 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.

In prior years, the Organization accounted for 401(k) contribution expenses using a deferred method, 75% expensed in year determined and remaining 25% amortized over subsequent two years. At January 1, 2008, the Organization changed this policy to expense 401(k) contributions in the year determined. (See Note 16) For the year ended December 31, 2008, the expense related to the Plan amounted to \$683,437.

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

NOTE 10 CONCENTRATIONS OF CREDIT RISK

At December 31, 2008, 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, 2008 was as follows:

Medicare	57%
Medicaid	32%
Commercial and Other	11%
	<u>100%</u>

NOTE 11 FUNCTIONAL EXPENSES

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

Program Service	\$ 31,078,236
Management and Administrative	5,586,315
Fundraising	577,551
Total Expenses	<u>\$ 37,242,102</u>

NOTE 12 DERIVATIVES

The Organization follows Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 requires that all derivative instruments be recorded on the Statement of Financial Position at their fair value. Changes in fair value of derivatives are recorded each period as a change in net assets.

The Organization utilizes derivative financial instruments to reduce its exposure to the market risk from changes in interest rates. The instruments used to mitigate this risk are "interest rate swaps." The instruments held by the Organization are designated as highly effective cash flow hedges of interest rate risk on variable rate debt and, accordingly, the changes in the fair value of these instruments are recorded as "other changes in net assets" for the year.

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

NOTE 12 DERIVATIVES (CONTINUED)

The Organization has entered into one interest rate swap agreement to hedge the interest rate risk associated with \$9.615 million of variable rate long-term debt as described in Note 6. The purpose of this swap is to fix interest rates on variable rate debt and reduce the exposure to interest rate fluctuations. At December 31, 2008, the Organization had interest rate swaps outstanding as shown below:

Underlying Issue – The instrument, which matures on August 1, 2016, stipulates that the Organization pay interest to an unrelated counterparty at a fixed rate of 4.36% per annum on an outstanding “notional amount.” The “notional amount” at December 31, 2008 was \$4,379,000. The counterparty is to pay the Organization interest (on the same outstanding “notional amount”) at a variable rate equal to the USD-BMA Municipal Swap Index. At December 31, 2008, the Organization had an interest rate swap liability of \$560,421.

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires the disclosure of the estimated fair value of financial instruments including those financial instruments for which the Organization did not elect the fair value option. The fair values of such instrument have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows, and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable value could be materially different from the estimates presented below. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Organization. The provisions of SFAS 107 do not require the disclosure of non financial assets including goodwill, other real estate, and intangible assets.

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization measures fair value refer to Note 1 – Organization and Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Organization measured at fair value on a recurring basis as of December 31, 2008:

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

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money Market Funds	\$ 781,929	\$ -	\$ -	\$ 781,929
Certificate of Deposit Accounts	1,000,000	-	-	1,000,000
Corporate Bonds and Bond Funds	949,660	-	-	949,660
Preferred Stock	88,473	-	-	88,473
Total Assets	<u>\$2,820,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,820,062</u>
Liabilities:				
Derivatives	<u>\$ -</u>	<u>\$ 560,421</u>	<u>\$ -</u>	<u>\$ 560,421</u>
Total Liabilities	<u>\$ -</u>	<u>\$ 560,421</u>	<u>\$ -</u>	<u>\$ 560,421</u>

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Cash and Cash Equivalents Patient, Resident, and Other Receivables and Accounts Payable

The carrying amount approximates fair value because of the short-term nature of these instruments.

Bonds Payable

Fair values are 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, 2008 approximates \$9,600,000.

NOTE 14 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.

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

NOTE 15 CHARITY CARE

The amount of charges foregone for services and supplies furnished under the Organization's charity care policy aggregated approximately \$557,691 in 2008.

NOTE 16 PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2008, management determined that certain adjustments were necessary to correct net assets at January 1, 2008 in order to properly reflect the following: to record prior year fair value of interest rate swap, to correct beginning balances of the following accounts: accounts receivable, 401(k) payable, accrued payroll, and accrued Medicaid room and board, and to record prior year contractual allowance related to commercial accounts receivable.

	Unrestricted Net Assets	Total Net Assets
Net Assets at January 1, 2008, as Previously Stated	\$ 11,277,374	\$ 11,582,703
Accounts Receivable	(656,158)	(656,158)
Fair Value of Interest Rate Swap	(312,681)	(312,681)
401(k) Payable	(278,099)	(278,099)
Other items	(222,026)	(222,026)
	<u> </u>	<u> </u>
Net Assets at January 1, 2008, as Restated	<u>\$ 9,808,410</u>	<u>\$ 10,113,739</u>