

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

REPORT ON EXAMINATION
OF FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

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May 17, 2011

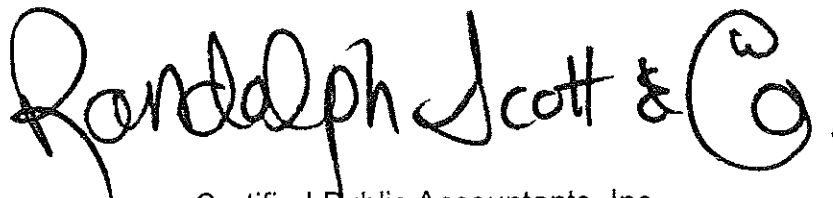
Board of Directors
Mission Hospice of San Mateo County
San Mateo, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of **Mission Hospice of San Mateo County** as of December 31, 2010, and the related statements of activities, functional expenses, and of cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the **Mission Hospice of San Mateo County's** December 31, 2009 financial statements and, in our report dated April 22, 2010 we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 **Mission Hospice of San Mateo County**, as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountants, Inc.

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

STATEMENT OF FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
CURRENT ASSETS					
Cash and Cash Equivalents (Note A)	\$ 538,729	\$ 8,128	\$ 49,585	\$ 596,442	\$ 1,232,747
Accounts Receivable, net of allowances of \$100,000 and \$0 respectively	658,171			658,171	353,383
Prepaid Expenses	34,941			34,941	48,235
Total Current Assets	1,231,841	8,128	49,585	1,289,554	1,634,365
INVESTMENTS (Note E)	2,220,479			2,220,479	1,405,624
NET PROPERTY AND EQUIPMENT (Note F)	224,596			224,596	181,390
OTHER ASSETS					
Assets Reserved for Unemployment Claims	44,504			44,504	26,699
Deposits	28,552			28,552	13,520
TOTAL ASSETS	\$ 3,749,972	\$ 8,128	\$ 49,585	\$ 3,807,685	\$ 3,261,598
 <u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Current Portion of Capital Lease Payable (Note G)	\$ 9,294	\$	\$	\$ 9,294	\$ 10,905
Accounts Payable	94,077			94,077	73,477
Accrued Payroll Expenses	261,605			261,605	132,751
Total Current Liabilities	364,976	-	-	364,976	217,133
LIABILITY FOR UNEMPLOYMENT CLAIMS	44,504			44,504	26,699
CAPITAL LEASE PAYABLE (Note G)	46,242			46,242	28,663
COMMITMENTS AND CONTINGENCY (Note I)				-	-
TOTAL LIABILITIES	455,722	-	-	455,722	272,495
NET ASSETS:					
Unrestricted	1,423,215			1,423,215	1,783,737
Board Designated Funds	1,871,035			1,871,035	1,000,000
Temporarily Restricted (Note B)		8,128		8,128	156,781
Permanently Restricted (Note C)			49,585	49,585	48,585
TOTAL NET ASSETS	3,294,250	8,128	49,585	3,351,963	2,989,103
TOTAL LIABILITIES AND NET ASSETS	\$ 3,749,972	\$ 8,128	\$ 49,585	\$ 3,807,685	\$ 3,261,598

See Notes to Financial Statements

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

(With Comparative Totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
REVENUES, GAINS, AND OTHER SUPPORT:					
Contributions:					
Donations and memorials	\$ 375,495	\$ 82,134	\$ 1,000	\$ 458,629	\$ 1,113,922
Government fees for services	3,393,968			3,393,968	2,914,475
Grants and Contracts	86,250			86,250	63,500
Private fees for services	390,522			390,522	237,293
Special Events:					
Revenue	114,479			114,479	40,210
Interest and dividends	84,489	1,783		86,272	34,359
Realized and Unrealized Gain / (Loss) on Investments (Note E)	120,633			120,633	109,511
In-Kind Revenue	1,000			1,000	2,386
Gain/(Loss) on Disposal of Assets	(56,370)			(56,370)	-
Miscellaneous income	19,786			19,786	20,000
Net Assets Released from Donor Restrictions (Note D):					
Satisfaction of program restrictions	111,535	(111,535)		-	-
Total Revenues, Gains and Support	4,641,787	(27,618)	1,000	4,615,169	4,535,656
EXPENSES:					
Program Services:					
Bereavement	87,730			87,730	83,183
Chaplaincy	176,348			176,348	152,484
Patient Care	2,403,034			2,403,034	1,870,626
Social Work	446,274			446,274	396,932
Transitions	102,194			102,194	230,081
Volunteer	83,047			83,047	94,114
Supporting Services:					
Management and General	584,093			584,093	495,373
Fundraising and Development	369,589			369,589	174,142
Total Expenses	4,252,309	-	-	4,252,309	3,496,935
CHANGE IN NET ASSETS	389,478	(27,618)	1,000	362,860	1,038,721
Transfers	121,035	(121,035)	-	-	-
NET ASSETS, beginning of year	2,783,737	\$ 156,781	\$ 48,585	2,989,103	1,950,382
NET ASSETS, end of year	\$ 3,294,250	\$ 8,128	\$ 49,585	\$ 3,351,963	\$ 2,989,103

See Notes to Financial Statements

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

	Program Services				Supporting Services		Total 2010	Total 2009			
	Bereavement	Chaplaincy	Patient Care	Social Work	Transitions	Volunteer			Total Program Services	Management and General	Fundraising and Develop.
EXPENSES:											
Salaries	\$ 66,553	\$ 116,692	\$ 1,206,585	\$ 307,190	\$ 84,085	\$ 51,488	\$ 1,832,593	\$ 389,716	\$ 136,664	\$ 2,358,973	\$ 2,065,014
Payroll taxes	5,655	10,061	95,328	24,242	6,368	4,986	146,640	31,380	11,403	189,423	172,911
Employee benefits	2,057	18,551	106,685	27,204	5,519	4,671	164,687	32,888	7,690	205,265	171,921
Total Personnel Costs	74,265	145,304	1,408,598	358,636	95,972	61,145	2,143,920	453,984	155,757	2,753,661	2,409,846
Advertising & Marketing	-	-	-	-	-	-	-	-	41,242	41,242	38,584
Bad Debt Expense	-	-	100,000	-	-	-	100,000	-	-	100,000	-
Clinical Database Provider	900	-	31,163	-	-	-	32,063	2,464	-	34,527	21,224
Computer Support Expense	1,422	3,318	22,980	5,214	474	1,896	35,304	10,422	2,370	48,096	49,380
Depreciation Expense	2,550	5,950	40,800	9,350	770	3,400	62,820	17,930	4,250	85,000	65,147
Dues and Licenses	202	852	6,546	740	146	269	8,755	1,722	917	11,394	8,252
Employee Educ/Training	-	425	2,629	1,542	-	-	4,596	7,563	734	12,893	8,829
Employment Recruitment	-	-	53	-	-	-	53	-	-	53	479
Equipment Lease	13	29	201	46	4	17	310	92	17	419	827
Development	-	-	-	-	-	-	-	-	143,476	143,476	88,239
In-Kind Expenses	-	-	-	-	-	-	-	-	1,000	1,000	2,386
Insurance	576	1,345	9,221	1,984	204	897	14,227	4,022	961	19,210	13,835
Interest Expense	99	231	1,583	363	130	132	2,538	595	164	3,297	5,852
Intern Program	-	-	-	12,053	1,453	-	13,506	-	-	13,506	9,095
Miscellaneous Expense	-	-	30,712	-	-	-	30,712	-	-	30,712	152
Office Supplies	262	582	14,716	2,205	29	247	18,041	16,620	1,513	36,174	26,582
Other Fees & Charges	1,647	404	3,200	1,021	105	203	6,580	3,351	2,958	12,889	10,962
Patient Care Expenses	-	2,925	615,957	10,681	-	-	629,563	154	-	629,717	505,332
Postage & Printing	347	1,322	6,140	2,281	163	463	10,716	3,611	3,836	18,163	21,277
Professional Fees	-	518	50	17,662	-	-	18,230	19,195	-	37,425	34,160
Rent	4,831	11,273	77,302	17,715	1,659	6,442	119,222	33,771	8,053	161,046	120,633
Repairs & Maintenance	134	313	11,749	476	52	194	12,918	1,529	223	14,670	13,823
Subscription	-	-	1,605	-	-	155	1,760	1,303	-	3,063	5,559
Telephone	325	1,191	11,637	3,607	311	406	17,477	3,563	1,091	22,131	19,733
Travel	-	-	-	123	670	-	793	471	753	2,017	2,130
Utilities	157	366	6,192	575	52	209	7,551	1,731	274	9,556	8,635
Volunteer Expenses	-	-	-	-	-	6,972	6,972	-	-	6,972	5,982
Total Operating Costs	13,465	31,044	994,436	87,638	6,222	21,902	1,154,707	130,109	213,832	1,498,648	1,087,089
Total Expenses	\$ 87,730	\$ 176,348	\$ 2,403,034	\$ 446,274	\$ 102,194	\$ 83,047	\$ 3,298,627	\$ 584,093	\$ 369,589	\$ 4,252,309	\$ 3,496,935

See Notes to Financial Statements

MISSION HOSPICE OF SAN MATEO COUNTY

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

(With Comparative Totals for 2009)

	<u>Total 2010</u>	<u>Total 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 362,860	\$ 1,038,721
Adjustments to Reconcile Net Revenue and Support to Cash Provided by Operating Activities:		
Realized and Unrealized (Gain) / Loss on Investments (Note E)	(120,633)	(109,511)
(Gain)/Loss on Disposal of Assets	84,593	-
Depreciation (Note F)	85,000	65,147
(Increase) / Decrease in Assets:		
Accounts Receivable	(304,788)	(85,154)
Prepaid Expenses	13,294	(10,705)
Assets Reserved for Unemployment Claims	(17,805)	(12,555)
Deposits	(15,032)	7,702
Increase / (Decrease) in Liabilities:		
Accounts Payable	20,600	(5,673)
Accrued Payroll Expenses	128,854	3,920
Liability for Unemployment Claims	17,805	12,555
Total Adjustments	<u>(108,112)</u>	<u>(134,274)</u>
Net Cash Provided (Used) By Operating Activities:	<u>254,748</u>	<u>904,447</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(212,799)	(17,917)
Purchase of Investments	(1,238,219)	(674,217)
Proceeds from Sale of Investments	543,997	287,574
Net Cash Provided (Used) By Investing Activities:	<u>(907,021)</u>	<u>(404,560)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Capital Lease Payable	58,380	-
Payments made on Capital Lease, less interest of \$5,392 and \$5,852, respectively	(42,412)	(9,667)
Net Cash Provided (Used) By Financing Activities:	<u>15,968</u>	<u>(9,667)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(636,305)</u>	<u>490,220</u>
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,232,747</u>	<u>742,527</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 596,442</u>	<u>\$ 1,232,747</u>
<u>SUPPLEMENTAL INFORMATION:</u>		
Interest Paid	<u>\$ 3,297</u>	<u>\$ 5,852</u>

See Notes to Financial Statements

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Mission Hospice of San Mateo County, (the Organization) was founded in 1979 as a nonprofit, nonsectarian charitable organization whose purpose is to provide, facilitate and coordinate physical, emotional, social and spiritual care for the terminally ill in San Mateo County. The organization is supported primarily through donor contributions, government and private fees for service. During the year ended December 31, 2010, the Organization filed a fictitious business name statement and is now known as **Mission Hospice and Home Care**.

Description of Major Programs

Hospice Programs: Provides, facilitates, and coordinates physical, emotional, social and spiritual care for terminally-ill patients and their families in San Mateo County. Our services include hospice, advanced care and transition care both in-home and in health care facilities (residential care, assisted living, board and care and skilled nursing), bereavement support, volunteer training and mobilization, and outreach and education to the community and health care professionals. Trained staff and volunteers provide all services given to the patients, families, or members of the community.

Management and General: Includes functions necessary to maintain an equitable employment program and ensure an adequate working environment. It provides for the coordination and articulation of the Organization's program strategy; secures proper administrative functioning of the Board of Directors, maintains competent legal services for the program administration of the Organization, and manages the financial and budgetary responsibilities of the Organization.

Fundraising and Development: Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

Basis of Accounting and Reporting

Accounting and Reporting in Accordance with FASB ASC 958-605 and 958-205

The Organization reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the asset contributed. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. In accordance with FASB ASC 958-205 the Organization reports information regarding its financial position and activities according to three classes of net assets: Unrestricted, Temporarily Restricted and Permanently Restricted.

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Accounting and Reporting – (Continued)

Accounting Method: The Organization maintains its records on the accrual basis of accounting.

Accounting in Accordance with FASB ASC 820-10

The Organization adopted FASB ASC 820-10, *Fair Value Measurements*, (FASB ASC 820-10) which provides a framework for measuring fair value under generally accepted accounting principles. FASB ASC 820-10 applies to all financial instruments that are being measured and reported on a fair value basis. FASB ASC 820-10 has been applied prospectively as of the beginning of the year.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 also established a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal Organization securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Accounting and Reporting – (Continued)

Accounting in Accordance with FASB ASC 820-10 – (Continued):

Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Fund in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Fund's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Fund uses prices and inputs that are current as of the measurement date, including during the periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy. As further discussed in Note E, the Organization determines the fair value of investments by obtaining the market price per share or unit at year end.

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 reported amounts of assets, liabilities, net assets, and revenues and expenses for the reporting period. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and cash equivalents: The carrying amount reported in the statement of financial position for cash and cash equivalents approximates its fair value.

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Fair Values of Financial Instruments – (Continued)

Accounts receivable and accounts payable: The carrying amounts of accounts receivable and accounts payable in the statement of financial position approximates fair value.

Lease obligation: The carrying value of the Organization's debt approximates fair value because of the variable nature of market interest rates.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of uninsured cash balances. The Organization places its cash deposits with high-credit quality financial institutions. At times, balances in the Organization's cash accounts may exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. At December 31, 2010, balances above the insured limits were approximately \$356,080.

Concentration of Revenue Sources

During the year ended December 31, 2010, the Organization had one major revenue source (Medicare) that accounted for approximately 74% of the total revenue of the Organization.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates are negligible. These are generally investments with maturity dates within three months of their acquisition date. Not included as cash equivalents are funds restricted as to their use, regardless of liquidity or the maturity dates of investments.

Accounts Receivable

Receivables are reflected on the balance sheet net of allowances for doubtful accounts. The allowance for doubtful receivables is determined based upon an annual review of the account balances, including the age of the balance and the historical experience with the customer. Uncollectible trade receivables are charged to the respective allowance. The allowances are adjusted at year end based upon the review previously discussed. An expense or loss is recorded at the time the allowance is adjusted.

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Prepaid Expenses

Prepaid expense balances are calculated and adjusted at year end to properly charge funds in the period benefited.

Property and Equipment

The Organization policy is to capitalize assets with a unit cost of \$1,000 or greater. The Organization records purchased property and equipment at cost, and donated fixed assets at fair market value on the date received.

As further discussed in Note F, property and equipment is depreciated by the straight-line method over the estimated useful lives of the respective assets which range from five to ten years.

Capital Lease Obligation

As further discussed in Notes F and G, the Organization's capital lease obligation consists of a copier lease that had an initial term of 60 months with a maturity date of August 2013. The organization amortized the obligation over the term of the lease.

Accrued Vacation and Sick Leave Benefits

Employee vacation benefits earned, but not used, are recognized as liabilities of the Organization, and are recorded in the program funds for which each employee works. Accrued Vacation at December 31, 2010 was \$188,910.

Sick leave benefits are earned and accumulated for each employee. However, accumulated sick leave benefits are not recognized as liabilities of the Organization because the payment of such benefits is not probable or estimable.

Functional Allocation of Expenses

Certain expenses are allocated to various program and support services in accordance with the Organization's cost allocation plan which utilizes statistical methods as determined by management.

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Donated Assets and Services

Donated marketable securities and other noncash donations are recorded as contribution at their estimated fair values at the date of donation. Donated services are recognized as contributions in accordance with FASB ASC 958-605-45 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Income Taxes

The Organization has received tax exempt status under Section 501 (c) (3) of the Internal Revenue Code, and Section 23701 (d) of the California Revenue and Taxation Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

Summarized Information for 2009

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, from which the summarized information was obtained.

Mission Hospice Endowment Fund

The Endowment Fund was established to provide a permanent source of funding for the charitable work of the Organization. The Endowment Fund is dedicated to the support of the Organization including without limitation its provision of care to terminally ill patients and their families. Only funds that are permanently restricted by the Donor will be added to the Endowment Fund. Gifts may be designated within the Endowment Fund to support specific programs.

As required by GAAP, net assets associated with an endowment fund, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

MISSION HOSPICE OF SAN MATEO COUNTY
(dba MISSION HOSPICE AND HOME CARE)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010
(With Comparative Totals for 2009)

NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Mission Hospice Endowment Fund – (Continued)

Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the funds, (2) The purposes of the Organization and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investments, (6) Other resources of the Organization, and (7) The investment policies of the Organization.

Spending Policy

To the extent of a permanently restricted endowment's cumulative, undistributed earnings, and unless the donee has specified otherwise, four (4) percent of the fair market value of the Endowment Fund as of the first day of the fiscal year (January 1) is available for spending each year. The first payout shall be no earlier than one full year of endowment operation. The payout on this basis may exceed current income. Over time, it is expected that the annual payout will constitute only a portion of the Endowment Fund's total return (income and appreciation), this building up the Endowment, offsetting inflation, and preserving the purchasing power of the fund.

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NOTES TO FINANCIAL STATEMENTS

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NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Investment Policies

The Organization physically and financially separates the Endowment Fund from other funds. The Endowment Fund is managed by a professional investment advisor of the Board's choosing. The Investment Committee reviews the work of the investment advisor(s) at least annually, and then reports to the Board of Directors. The primary investment objectives are preservation of capital and purchasing power and long-term growth of assets. To this end, the investments are for total return (income and capital appreciation) without considering a specific income rate,

Strategies Employed for Achieving Objectives

Restrictions: Since the primary role of the Trustees is to preserve the capital of the endowment, it is agreed that only those securities generally considered to be of high quality are to be acquired. As an endowment fund, the nature of the investment policy is to reduce volatility where possible. This should be done by maintaining an equity portfolio that is well diversified across industry groups, and a fixed income portfolio made up of obligations of creditworthy institutions. We acknowledge that the Fund assumes market risk by maintaining a portfolio of investments; however, high risk taking is not in the best interests of the Fund and should be avoided.

NOTE B - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

At December 31, 2010, temporarily restricted assets available for future use are as follows:

Bereavement Services	\$	6,345
Endowment Fund		<u>1,783</u>
Total Temporarily Restricted Net Assets	\$	<u><u>8,128</u></u>

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NOTE C – ENDOWMENT FUND

The composition of the Organization's endowment fund by net asset class and a reconciliation of the beginning and ending balance of the Organization's endowment follow:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ -	\$ 121,035	\$ 48,585	\$ 169,620
Investment return:				
Investment income		1,783		1,783
Unrealized Gain/(Loss)				-
Total investment return	-	1,783	-	1,783
Contributions			1,000	1,000
Release of Board Designated Endowment Funds		(121,035)		(121,035)
Endowment Net Assets, end of year	\$ -	\$ 1,783	\$ 49,585	\$ 51,368

NOTE D - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. For the year ended December 31, 2010, net assets released from donor restrictions were as follows:

Transitions	\$ 82,134
Community Outreach	13,667
Home Health Aide	13,154
Bereavement	2,580
Total Net Assets Released from Donor Restrictions	\$ <u>111,535</u>

NOTE E – INVESTMENTS

The investments of the Organization have been recorded at fair value at December 31, 2010, and have been categorized based upon a fair value hierarchy in accordance with FASB ASC 820-10. The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2010:

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NOTE E – INVESTMENTS – (CONTINUED)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of Dec. 31, 2009
Mutual Funds	\$ 1,244,141	\$ -	\$ -	\$ 1,244,141
Closed End Funds	878,458		-	878,458
Certificates of Deposits	95,561		-	95,561
Securities	2,319	-	-	2,319
Totals	\$ 2,220,479	\$ -	\$ -	\$ 2,220,479

Total return on investments during the year ended December 31, 2010 was as follows:

	Interest & Dividends	Realized Gain / (Loss) on Sale of Investments	Current Year's Unrealized Gain / (Loss) on Investments	Total Return on Investment
Mutual Funds	\$ 58,780	\$ 7,155	\$ 4,053	\$ 69,988
Closed End Funds	20,620	-	114,338	134,958
Certificates of Deposits	6,762	(247)	-	6,515
Securities	54	(2,123)	(2,543)	(4,612)
Total:	\$ 86,216	\$ 4,785	\$ 115,848	\$ 206,849

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2010.

Common Stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net asset value of shares held by the plan at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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NOTE F - PROPERTY AND EQUIPMENT

At December 31, 2010, equipment consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 179,037	\$ 57,824	\$ 121,213
Furniture and Fixtures	112,409	83,255	29,154
Capital Lease Equipment	58,380	3,892	54,488
Leasehold improvements	21,536	1,795	19,741
Total	\$ 371,362	\$ 146,766	\$ 224,596

For the year ended December 31, 2010, the total depreciation expense was \$85,000. Included in the equipment balance above is a capital lease for a copier machine with a cost of \$56,380 and depreciation expense of \$11,418.

NOTE G – CAPITAL LEASE PAYABLE

Copier lease with monthly payments of principal and interest of approximately \$1,322 through August 2015.	\$ 55,536
Less Current Portion	9,294
Long-Term Capital Lease Payable	\$ 46,242

Future annual capital lease payments are as follows:

Year Ending: December 31, 2011	\$ 15,864
December 31, 2012	15,864
December 31, 2013	15,864
December 31, 2014	15,864
December 31, 2015	10,576
	74,032
Less amount representing interest	18,496
	\$ 55,536

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NOTE H – RETIREMENT PLAN

The Organization maintains a Safe Harbor 401(k) Plan. Employees may elect to reduce his/her compensation by a specific percentage or dollar amount, and the amount contributed to the Plan is on a pre-tax basis. Employees are eligible under the plan if they are at least 21 years of age and have completed one year of service. Under the plan, the Organization contributes 100% of employee's salary deferrals that do not exceed 3% of compensation, plus 50% of salary deferrals between 3% and 5% of employee's compensation. Total contributions by the Organization for the year ended December 31, 2010 was \$58,595.

NOTE I- COMMITMENTS AND CONTINGENCIES

Commitments

Real Property: The Organization conducts its operations on leased premises. Future obligations under non cancelable lease agreements in excess of one year as of December 31, 2010 are:

	<u>Property</u>	<u>Equipment</u>	<u>Total Future Commitments</u>
Year Ending: December 31, 2011	\$ 121,648	\$ 1,728	\$ 123,376
December 31, 2012	124,689	1,728	126,417
December 31, 2013	127,730	1,296	129,026
December 31, 2014	157,382		157,382
December 31, 2015	161,944		161,944
Thereafter	250,899		250,899
	<u>\$ 944,292</u>	<u>\$ 4,752</u>	<u>\$ 949,044</u>

Total rent expense for the year ended December 31, 2010 was \$161,046.

Contingencies

Grant Awards

Grant awards require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

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NOTE I- COMMITMENTS AND CONTINGENCIES

Subsequent Events

The Organization has evaluated their financial position and activities from the December 31, 2010 year end of this report through May 17, 2011, which is the date that the financial statements were available to be issued. No material subsequent event items that required recognition or disclosure were identified.