

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, 2011
(With Comparative Totals for 2010)

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June 20, 2012

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, 2011, 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, 2010 financial statements and, in our report dated May 17, 2011 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, 2011, 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

DECEMBER 31, 2011
(With Comparative Totals for 2010)

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
CURRENT ASSETS					
Cash and Cash Equivalents (Note A)	\$ 748,394	\$ 81,273	\$ 49,585	\$ 879,252	\$ 596,442
Accounts Receivable, net of allowances of \$168,736 and \$100,000 respectively	1,360,081			1,360,081	658,171
Prepaid Expenses	28,522			28,522	34,941
Total Current Assets	2,136,997	81,273	49,585	2,267,855	1,289,554
INVESTMENTS (Note E)	1,716,477			1,716,477	2,220,479
NET PROPERTY AND EQUIPMENT (Note F)	190,430			190,430	224,596
OTHER ASSETS					
Assets Reserved for Unemployment Claims	44,504			44,504	44,504
Deposits	34,253			34,253	28,552
TOTAL ASSETS	\$ 4,122,661	\$ 81,273	\$ 49,585	\$ 4,253,519	\$ 3,807,685
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Current Portion of Capital Lease Payable (Note G)	\$ 12,253	\$	\$	\$ 12,253	\$ 9,294
Accounts Payable	214,752			214,752	94,077
Accrued Payroll Expenses	246,131			246,131	261,605
Total Current Liabilities	473,136	-	-	473,136	364,976
LIABILITY FOR UNEMPLOYMENT CLAIMS	44,504			44,504	44,504
CAPITAL LEASE PAYABLE (Note G)	41,600			41,600	46,242
COMMITMENTS AND CONTINGENCIES (Note I)				-	-
TOTAL LIABILITIES	559,240	-	-	559,240	455,722
NET ASSETS:					
Unrestricted	1,692,386			1,692,386	1,423,215
Board Designated Funds	1,871,035			1,871,035	1,871,035
Temporarily Restricted (Note B)		81,273		81,273	8,128
Permanently Restricted (Note C)			49,585	49,585	49,585
TOTAL NET ASSETS	3,563,421	81,273	49,585	3,694,279	3,351,963
TOTAL LIABILITIES AND NET ASSETS	\$ 4,122,661	\$ 81,273	\$ 49,585	\$ 4,253,519	\$ 3,807,685

See Notes to Financial Statements

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

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
REVENUES, GAINS, AND OTHER SUPPORT:					
Contributions:					
Donations and memorials	\$ 320,522	\$ 97,683	\$	\$ 418,205	\$ 458,629
Medicare & Medicaid Fees	4,596,972			4,596,972	3,612,178
Grants and Contracts	27,500	25,000		52,500	86,250
Private fees for services	87,963			87,963	172,312
Special Events:					
Revenue	122,835	75,025		197,860	114,479
Interest and dividends	52,306	2,804		55,110	86,272
Realized and Unrealized Gain / (Loss) on Investments (Note E)	(25,983)			(25,983)	120,633
In-Kind Revenue	56,193			56,193	1,000
Gain/(Loss) on Disposal of Assets	-			-	(56,370)
Miscellaneous income	31,897			31,897	19,786
Net Assets Released from Donor Restrictions (Note D):					
Satisfaction of program restrictions	127,367	(127,367)		-	-
Total Revenues, Gains and Support	<u>5,397,572</u>	<u>73,145</u>	<u>-</u>	<u>5,470,717</u>	<u>4,615,169</u>
EXPENSES:					
Program Services:					
Hospice	3,520,775			3,520,775	3,196,433
Transitions	102,104			102,104	102,194
Home Care	514,579			514,579	-
Supporting Services:					
Management and General	571,980			571,980	584,093
Fundraising and Development	418,963			418,963	369,589
Total Expenses	<u>5,128,401</u>	<u>-</u>	<u>-</u>	<u>5,128,401</u>	<u>4,252,309</u>
CHANGE IN NET ASSETS	269,171	73,145	-	342,316	362,860
Transfers			-	-	-
NET ASSETS, beginning of year	<u>3,294,250</u>	<u>\$ 8,128</u>	<u>\$ 49,585</u>	<u>3,351,963</u>	<u>2,989,103</u>
NET ASSETS, end of year	<u>\$ 3,563,421</u>	<u>\$ 81,273</u>	<u>\$ 49,585</u>	<u>\$ 3,694,279</u>	<u>\$ 3,351,963</u>

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, 2011
(With Comparative Totals for 2010)

	Program Services			Supporting Services			Total 2011	Total 2010
	Hospice	Transitions	Home Care	Total Program Services	Management and General	Fundraising and Develop.		
EXPENSES:								
Salaries	\$ 2,024,476	\$ 64,078	\$ 160,647	\$ 2,249,201	\$ 367,353	\$ 139,537	\$ 2,756,091	\$ 2,358,973
Payroll taxes	151,583	4,029	8,410	164,022	22,906	11,018	197,946	189,423
Employee benefits	187,108	-	14,805	201,913	35,812	8,698	246,423	205,265
Total Personnel Costs	2,363,167	68,107	183,862	2,615,136	426,071	159,253	3,200,460	2,753,661
Advertising & Marketing	13,089	-	10,489	23,578	-	-	23,578	41,242
Bad Debt Expense	100,000	-	-	100,000	-	-	100,000	100,000
Computer Support Expense	56,129	-	12,153	68,282	18,044	2,281	88,607	82,623
Depreciation Expense	62,697	-	5,327	68,024	18,793	3,448	90,265	85,000
Dues and Licenses	10,531	-	7,730	18,261	1,601	725	20,587	11,394
Employee Educ/Training	5,090	-	149	5,239	2,562	135	7,936	12,893
Development	50	-	-	50	17,963	182,482	200,495	143,476
Food/In Service Meetings	1,361	-	128	1,489	7,666	84	9,239	12,112
In-Kind Expenses	116	-	-	116	-	56,077	56,193	1,000
Insurance	21,807	-	1,937	23,744	7,302	1,118	32,164	19,210
Interest Expense	4,979	-	(59)	4,920	1,502	350	6,772	3,297
Intern Program	-	4,526	-	4,526	-	-	4,526	13,506
Miscellaneous & Other Expense	4,473	-	94	4,567	(92)	(30)	4,445	26,044
Office Supplies	23,638	78	4,443	28,159	7,222	990	36,371	36,174
Other Fees & Charges	9,054	3,023	1,483	13,560	3,446	244	17,250	12,889
Patient Care Expenses	670,130	-	219,524	889,654	-	-	889,654	629,717
Postage & Printing	11,048	1,559	891	13,498	7,072	960	21,530	18,163
Professional Fees	32,112	23,327	50,252	105,691	14,409	4,000	124,100	37,425
Rent	93,583	-	8,624	102,207	27,953	5,020	135,180	161,046
Repairs & Maintenance	7,460	-	3,250	10,710	1,746	388	12,844	14,670
Subscription	2,019	-	1,366	3,385	2,433	(150)	5,668	3,063
Telephone	20,233	354	1,478	22,065	4,316	991	27,372	22,131
Travel	5	1,130	-	1,135	147	359	1,641	2,017
Utilities	8,004	-	1,458	9,462	1,824	238	11,524	9,556
Total Operating Costs	1,157,608	33,997	330,717	1,522,322	145,909	259,710	1,927,941	1,498,648
Total Expenses	\$ 3,520,775	\$ 102,104	\$ 514,579	\$ 4,137,458	\$ 571,980	\$ 418,963	\$ 5,128,401	\$ 4,252,309

See Notes to Financial Statements

MISSION HOSPICE OF SAN MATEO COUNTY

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

(With Comparative Totals for 2010)

	<u>Total 2011</u>	<u>Total 2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 342,316	\$ 362,860
Adjustments to Reconcile Net Revenue and Support to Cash Provided by Operating Activities:		
Realized and Unrealized (Gain) / Loss on Investments (Note E)	25,983	(120,633)
(Gain)/Loss on Disposal of Assets	-	84,593
Depreciation (Note F)	90,265	85,000
(Increase) / Decrease in Assets:		
Accounts Receivable	(701,910)	(304,788)
Prepaid Expenses	6,419	13,294
Assets Reserved for Unemployment Claims	-	(17,805)
Deposits	(5,701)	(15,032)
Increase / (Decrease) in Liabilities:		
Accounts Payable	120,675	20,600
Accrued Payroll Expenses	(15,474)	128,854
Liability for Unemployment Claims	-	17,805
Total Adjustments	<u>(479,743)</u>	<u>(108,112)</u>
Net Cash Provided (Used) By Operating Activities:	<u>(137,427)</u>	<u>254,748</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(56,099)	(212,799)
Purchase of Investments	(711,387)	(1,238,219)
Proceeds from Sale of Investments	1,189,406	543,997
Net Cash Provided (Used) By Investing Activities:	<u>421,920</u>	<u>(907,021)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in Capital Lease Payable	8,850	58,380
Payments made on Capital Lease, less interest of \$6,772 and \$3,297, respectively	(10,533)	(42,412)
Net Cash Provided (Used) By Financing Activities:	<u>(1,683)</u>	<u>15,968</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>282,810</u>	<u>(636,305)</u>
CASH AND CASH EQUIVALENTS, Beginning of year	<u>596,442</u>	<u>1,232,747</u>
CASH AND CASH EQUIVALENTS, End of year	\$ <u>879,252</u>	\$ <u>596,442</u>
<u>SUPPLEMENTAL INFORMATION:</u>		
Interest Paid	\$ <u>6,772</u>	\$ <u>3,297</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, 2011
(With Comparative Totals for 2010)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Mission Hospice of San Mateo County, (the Agency) was founded in 1979 as a nonprofit, nonsectarian charitable Agency whose purpose is to provide, facilitate and coordinate physical, emotional, social and spiritual care for the terminally ill in San Mateo County. The Agency is supported primarily through donor contributions, government reimbursements and private fees for service. The Agency has 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. Services provided 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 Agency's program strategy; secures proper administrative functioning of the Board of Directors, maintains competent legal services for the program administration of the Agency, and manages the financial and budgetary responsibilities of the Agency.

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 Agency 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 Agency 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, 2011
(With Comparative Totals for 2010)

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

Basis of Accounting and Reporting – (Continued)

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

Accounting in Accordance with FASB ASC 820-10

The Agency 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 Agency 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
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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(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.

Securities held-to-maturity and available for sale:

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates as of each statement of financial position date. Debt securities are classified as held-to-maturity when the Agency has the positive intent and ability to hold the securities to maturity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in investment income. When the fair value of a debt security classified as held-to-maturity is different than its amortized cost, the Agency recognizes the fair value in the financial statements with the unrealized gains and losses reported under net realized and unrealized gain/losses on investments. Interest on securities classified as held-to-maturity is included in investment income.

Marketable equity securities and debt securities not classified as held-to-maturity are classified as available-for-sale.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

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

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

Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in these financial statements under net realized and unrealized gain/losses on investments. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest method. Such amortization is included in investment income. When the fair value of a debt security classified as held-to-maturity or available-for-sale is different than its amortized cost, the Agency recognizes the fair value in the financial statements with the unrealized gains and losses reported in these financial statements under net realized and unrealized gain/losses on investments. Interest and dividends on securities classified as available-for-sale are included in investment income.

As further discussed in Note E, the Agency 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.

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 Agency's debt approximates fair value because of the variable nature of market interest rates.

Concentration of Revenue Sources

During the year ended December 31, 2011, the Agency had one major revenue source (Medicare) that accounted for approximately 74% of the total revenue of the Agency.

MISSION HOSPICE OF SAN MATEO COUNTY
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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

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

Concentration of Credit Risk

Financial instruments that potentially subject the Agency to concentrations of credit risk consist principally of uninsured cash balances. The Agency places its cash deposits with high-credit quality financial institutions. At times, balances in the Agency's cash accounts may exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. At December 31, 2011, balances above the insured limits were approximately \$347,000.

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.

Prepaid Expenses

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

Property and Equipment

The Agency policy is to capitalize assets with a unit cost of \$1,000 or greater. The Agency 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.

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011
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NOTE A – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Capital Lease Obligation

As further discussed in Notes F and G, the Agency's capital lease obligation consists of two copier leases with maturity dates to the beginning of 2016. The Agency 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 Agency, and are recorded in the program funds for which each employee works. Accrued Vacation at December 31, 2011 was \$246,131.

Sick leave benefits are earned and accumulated for each employee. However, accumulated sick leave benefits are not recognized as liabilities of the Agency 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 Agency's cost allocation plan which utilizes statistical methods as determined by management.

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 Agency.

Income Taxes

The Agency 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 Agency's tax-exempt purpose is subject to taxation as unrelated business income.

MISSION HOSPICE OF SAN MATEO COUNTY
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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(With Comparative Totals for 2010)

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

Summarized Information for 2010

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 Agency's financial statements for the year ended December 31, 2010, 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 Agency. The Endowment Fund is dedicated to the support of the Agency 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.

Interpretation of Relevant Law

The Board of Trustees of the Agency 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 Agency 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 Agency in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Agency 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 Agency and the donor-restricted

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

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

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 Agency, and (7) The investment policies of the Agency.

Spending Policy

To the extent of a permanently restricted endowment's cumulative, undistributed earnings, and unless the done 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.

Investment Policies

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

MISSION HOSPICE OF SAN MATEO COUNTY
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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011
(With Comparative Totals for 2010)

NOTE B - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2011, temporarily restricted assets available for future use are as follows:

Capital Campaign	\$ 62,157
Nursing Forum	10,000
Bereavement Services	4,529
Endowment Fund	<u>4,587</u>
Total Temporarily Restricted Net Assets	<u>\$ 81,273</u>

NOTE C – ENDOWMENT FUND

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ -	\$ 1,783	\$ 49,585	\$ 51,368
Investment return:				
Investment income	<u> </u>	<u>2,804</u>	<u> </u>	<u>2,804</u>
Total investment return	-	2,804	-	2,804
Contributions	<u> </u>	<u> </u>	<u> </u>	<u>-</u>
Endowment Net Assets, end of year	<u>\$ -</u>	<u>\$ 4,587</u>	<u>\$ 49,585</u>	<u>\$ 54,172</u>

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, 2011, net assets released from donor restrictions were as follows:

Transitions	\$ 86,683
Capital Campaign	38,868
Bereavement	<u>1,816</u>
Total Net Assets Released from Donor Restrictions	<u>\$ 127,367</u>

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

(With Comparative Totals for 2010)

NOTE E – INVESTMENTS

The investments of the Agency have been recorded at fair value at December 31, 2011, 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, 2011:

	Quoted Prices in Active Mkts. for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of 12/31/11
<u>Available-for-sale: Debt securities:</u>				
Corporate Bonds - Noncurrent	\$ -	\$ 492,168	\$ -	\$ 492,168
US Treasury Bills	-	56,738	-	56,738
<u>Available-for-sale: Equity securities:</u>				
Real Estate	183,190	-	-	183,190
Consumer Defense	97,995	-	-	97,995
Financial Services	92,662	-	-	92,662
Industrial	90,458	-	-	90,458
Technology Industry	86,167	-	-	86,167
Consumer Cyclical	69,583	-	-	69,583
Healthcare Industry	67,122	-	-	67,122
Energy	66,006	-	-	66,006
Other	414,388	-	-	414,388
Subtotal Available-for-Sale Assets	<u>1,167,571</u>	<u>548,906</u>	<u>-</u>	<u>1,716,477</u>
Totals	<u>\$ 1,167,571</u>	<u>\$ 548,906</u>	<u>\$ -</u>	<u>\$ 1,716,477</u>

Total return on investments during the year ended December 31, 2011 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	\$ 28,250	\$ 21,082	\$ (8,709)	\$ 40,623
Closed End Funds	23,115	21,020	(59,618)	(15,483)
Securities	5	328	(86)	247
Total:	<u>\$ 51,370</u>	<u>\$ 42,430</u>	<u>\$ (68,413)</u>	<u>\$ 25,387</u>

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011
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NOTE E – INVESTMENTS – (Continued)

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, 2011.

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

Mutual Funds: Valued at the closing price per shares held 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 Agency 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.

NOTE F - PROPERTY AND EQUIPMENT

At December 31, 2011, equipment consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment	\$ 226,286	\$ 115,439	\$ 110,847
Furniture and Fixtures	112,409	98,447	13,962
Capital Lease Equipment	67,230	17,043	50,187
Leasehold improvements	21,536	6,102	15,434
Total	\$ <u>427,461</u>	\$ <u>237,031</u>	\$ <u>190,430</u>

For the year ended December 31, 2011, the total depreciation expense was \$90,265.

NOTE G – CAPITAL LEASE PAYABLE

Two copier leases with monthly payments of principal and interest of \$1,322 through August 2015 and \$160 through March 2016.

	\$ 53,853
Less Current Portion	<u>12,253</u>
Long-Term Capital Lease Payable	\$ <u>41,600</u>

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NOTES TO FINANCIAL STATEMENTS

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NOTE G – CAPITAL LEASE PAYABLE – (Continued)

Future annual capital lease payments are as follows:

Year Ending: December 31, 2012	\$	17,784
December 31, 2013		17,784
December 31, 2014		17,784
December 31, 2015		12,496
December 31, 2016		480
		<u>66,328</u>
Less amount representing interest		12,475
	\$	<u><u>53,853</u></u>

NOTE H – RETIREMENT PLAN

The Agency maintains a Safe Harbor 401(k) Plan. Employees may elect to reduce their 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 Agency 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 Agency for the year ended December 31, 2011 was \$64,713.

NOTE I- COMMITMENTS AND CONTINGENCIES

Commitments

Real Property: The Agency conducts its operations on leased premises. Future obligations under non cancelable lease agreements in excess of one year as of December 31, 2011 are:

	<u>Property</u>	<u>Equipment</u>	<u>Total</u>
Year Ending: 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
December 31, 2016	166,506		166,506
Thereafter	84,393		84,393
	<u>\$ 822,644</u>	<u>\$ 3,024</u>	<u>\$ 825,668</u>

Total rent expense for the year ended December 31, 2011 was \$135,180.

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NOTE I- COMMITMENTS AND CONTINGENCIES – (Continued)

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 Agency deems this contingency remote since by accepting the grants and their terms it has accommodated the objectives of the Agency to the provisions of the grants. The Agency's management is of the opinion that the Agency has complied with the terms of all grants.

Subsequent Events

The Agency has evaluated its financial position and activities from the December 31, 2011 year end of this report through June 20, 2012, 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.