

**HOSPICE OF PALM BEACH COUNTY
FOUNDATION, INC.**

FINANCIAL STATEMENTS
September 30, 2011 and 2010

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
West Palm Beach, Florida

FINANCIAL STATEMENTS
September 30, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Hospice of Palm Beach County Foundation, Inc.
West Palm Beach, Florida

We have audited the accompanying balance sheets of Hospice of Palm Beach County Foundation, Inc. ("HPBC Foundation") as of September 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of HPBC Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospice of Palm Beach County Foundation, Inc. as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Crowe Horwath LLP

South Bend, Indiana
January 19, 2012

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
BALANCE SHEETS
September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 665,105	\$ 569,236
Due from affiliate	1,480	2,378
Bequests receivable	59,500	180,866
Other current assets	<u>30,556</u>	<u>26,183</u>
Total current assets	756,641	778,663
Investments	88,158,525	84,723,270
Property and equipment, net	<u>113,719</u>	<u>-</u>
	<u>\$ 89,028,885</u>	<u>\$ 85,501,933</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 25,227	\$ -
Due to affiliates	9,352,828	6,442,466
Accrued payroll and benefits	282,931	118,795
Accrued expenses	<u>103,250</u>	<u>79,045</u>
	<u>9,764,236</u>	<u>6,640,306</u>
Net assets		
Unrestricted		
Undesignated	5,977,840	5,771,194
Board designated	<u>70,000,000</u>	<u>70,000,000</u>
Total unrestricted net assets	75,977,840	75,771,194
Temporarily restricted	586,809	390,433
Permanently restricted	<u>2,700,000</u>	<u>2,700,000</u>
Total net assets	<u>79,264,649</u>	<u>78,861,627</u>
	<u>\$ 89,028,885</u>	<u>\$ 85,501,933</u>

See accompanying notes to financial statements.

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted net assets		
Revenue and other support		
Contributions, memorials, and bequests	\$ 3,498,806	\$ 3,893,233
Resale of donated merchandise	1,240,300	-
Net assets released from restrictions	<u>171,261</u>	<u>102,086</u>
	4,910,367	3,995,319
 Expenses		
Grants to affiliates	4,330,652	4,134,151
Payroll and related expenses	1,550,034	892,284
Occupancy and equipment expenses	371,529	41,358
Operating expenses	<u>708,050</u>	<u>623,409</u>
	<u>6,960,265</u>	<u>5,691,202</u>
 Change in net assets from operations	(2,049,898)	(1,695,883)
 Nonoperating revenues and expenses		
Investment income, net of fees of \$696,211 in 2011 and \$689,261 in 2010	99,735	182,069
Net realized and unrealized gain on investments	<u>2,156,809</u>	<u>6,737,823</u>
	<u>2,256,544</u>	<u>6,919,892</u>
 Change in unrestricted net assets	206,646	5,224,009
 Temporarily restricted net assets		
Grants and contributions	367,637	187,321
Net assets released from restrictions	<u>(171,261)</u>	<u>(102,086)</u>
 Change in temporarily restricted net assets	<u>196,376</u>	<u>85,235</u>
 Change in net assets	403,022	5,309,244
 Net assets at beginning of year	<u>78,861,627</u>	<u>73,552,383</u>
 Net assets at end of year	<u>\$ 79,264,649</u>	<u>\$ 78,861,627</u>

See accompanying notes to financial statements.

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
 STATEMENTS OF CASH FLOWS
 Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 403,022	\$ 5,309,244
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	3,803	-
Net realized and unrealized gain on investments	(2,156,809)	(6,737,823)
Changes in assets and liabilities		
Bequests receivable	121,366	224,572
Other current assets	(4,373)	13,123
Accounts payable	25,227	-
Due to/from affiliates, net	2,911,260	1,554,523
Accrued payroll and benefits	164,136	78,714
Accrued expenses	<u>24,205</u>	<u>(50,210)</u>
Net cash from operating activities	1,491,837	392,143
 Cash flows from investing activities		
Proceeds from sale of investments	178,307,029	29,292,613
Purchase of investments	(179,585,475)	(29,312,528)
Purchases of property and equipment	<u>(117,522)</u>	<u>-</u>
Net cash from investing activities	<u>(1,395,968)</u>	<u>(19,915)</u>
 Net change in cash and cash equivalents	95,869	372,228
 Cash and cash equivalents at beginning of year	<u>569,236</u>	<u>197,008</u>
 Cash and cash equivalents at end of year	<u>\$ 665,105</u>	<u>\$ 569,236</u>

See accompanying notes to financial statements.

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Hospice of Palm Beach County Foundation, Inc. ("HPBC Foundation") is a not-for-profit corporation organized in Florida. During the year ended September 30, 2010, HPBC Foundation changed its name from Spectrum Healthcare Foundation, Inc. to Hospice of Palm Beach County Foundation, Inc. HPBC Foundation provides fundraising, investment management, grants, resale shop operations, and other support services to Spectrum Health, Inc. ("Spectrum") and its affiliates, including Hospice of Palm Beach County, Inc.

Affiliated Entities: HPBC Foundation's sole member is Spectrum, a non-stock, not-for-profit corporation organized in Florida. Spectrum is also a holding company (and sole member) for the following affiliates:

- Hospice of Palm Beach County, Inc. ("HPBC")
- The Medical Store of Palm Beach County, Inc. ("TMS")
- Hospice Partners On Call, Inc. ("HPOC"), discontinued as of October 2011
- South Florida Palliative Medicine Specialists, Inc. ("SFPMS")

Collectively, HPBC, TMS, HPBC Foundation, HPOC, and SFPMS are referred to as the Spectrum Affiliates.

Basis of Presentation: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial Statement Presentation: The financial statements report the changes in and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted net assets represent the part of the net assets of HPBC Foundation that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent the part of the net assets of HPBC Foundation resulting from contributions and other inflows of assets whose use by HPBC Foundation is limited by donor-imposed stipulations that either expire by the passage of time or by actions of HPBC Foundation. The temporarily restricted net assets are primarily restricted for HPBC's patient-related care and therapeutic activities.

Permanently restricted net assets represent the part of the net assets of HPBC Foundation resulting from contributions and other inflows of assets whose use by HPBC Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of HPBC Foundation. For the years ended September 30, 2011 and 2010, the permanently restricted net assets are invested in perpetuity for the purpose of generating income that is available for supporting the operations of HPBC.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP 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. Areas where significant estimates are used in the accompanying financial statements include the fair value of financial instruments. Actual results could differ from those estimates.

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are either interest-bearing and federally insured up to \$250,000 or non-interest bearing and fully guaranteed by the federal government. Additionally, for purposes of the statements of cash flows, HPBC Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments: All investments are valued at their fair values in the balance sheets. Unrealized gains and losses are included in the change in net assets. See Notes 2 and 3 for additional information on the nature of HPBC Foundation's investments.

Property and Equipment: Property and equipment are stated at cost or, if donated to HPBC Foundation, at fair value on the date of acquisition. Additions and improvements over \$5,000 are capitalized; expenditures for routine maintenance are charged to operations. Depreciation is provided over the estimated useful lives of the various classes of assets on the straight-line method.

Gifts of long-lived assets such as land, buildings and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets are to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The cost of property and equipment sold or otherwise disposed of and the accumulated depreciation applicable thereto are eliminated from the accounts and any resulting gain or loss is reflected in the financial statements in the period of disposition.

Impairment of Long-Lived Assets: On an ongoing basis, HPBC Foundation reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amounts may be overstated. HPBC Foundation recognizes impairment losses if the undiscounted cash flows expected to be generated by the asset are less than the carrying value of the related asset. The impairment loss adjusts the assets to fair value. As of September 30, 2011, management believes that no impairments exist.

Contributions: Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist. Conditional promises to give are recognized in the statements of activities and changes in net assets only when the conditions on which they depend are substantially met and the promises become unconditional.

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

Donor restricted gifts that are received for which their restricted purpose is met during the same year are initially recorded as temporarily restricted net assets and then reported as net assets released from restrictions and reclassified as unrestricted net assets.

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

HPBC Foundation actively solicits contributions on behalf of the Spectrum Affiliates. Donations to HPBC or the other Spectrum Affiliates have been recorded by HPBC Foundation and are reported in HPBC Foundation's financial statements.

Special Events: The following amounts relate to special events that are on-going and major activities of HPBC Foundation.

	<u>2011</u>	<u>2010</u>
Revenue	\$ 658,167	\$ 634,482
Expense	<u>218,941</u>	<u>271,627</u>
Net proceeds	<u>\$ 439,226</u>	<u>\$ 362,855</u>

Revenue is included in contributions, memorials, and bequests, and expenses are included in operating expenses in the statements of activities and changes in net assets.

Resale of Donated Merchandise: HPBC operated resale shops that sell primarily donated merchandise. The fair value of the donated merchandise sold approximates the revenue generated from its sale. In 2011 the resale shops became managed by HPBC Foundation.

Income Taxes: HPBC Foundation is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes.

U.S. GAAP requires that a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Due to its tax-exempt status, HPBC Foundation is not subject to U.S. federal income tax or state income tax. HPBC Foundation's Form 990 has not been subject to examination by the Internal Revenue Service or the state of Florida for the last three years. HPBC Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. HPBC Foundation recognizes interest and/or penalties related to income tax matters in income tax expense. HPBC Foundation did not have any amounts accrued for interest and penalties at September 30, 2011 and 2010.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to September 30, 2011 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended September 30, 2011. Management has performed their analysis through January 19, 2012, which is the date the financial statements were available to be issued.

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 - INVESTMENTS

The following are the major categories of investments held by HPBC Foundation at September 30:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 26,848,772	\$ 1,005,062
Equity securities	3,837,245	3,710,753
Fixed income	24,527	-
Mutual funds - equity	21,575,291	30,764,539
Mutual funds - fixed income	16,905,394	26,306,803
Mutual funds - hedge funds	35,430	-
Mutual funds - real assets	786,663	-
Alternative - real assets	1,629,814	6,411,268
Alternative - fund of funds	<u>16,515,389</u>	<u>16,524,845</u>
	<u>\$ 88,158,525</u>	<u>\$ 84,723,270</u>

Investments are carried at fair values, as disclosed in Note 3. Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of HPBC Foundation.

NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in HPBC Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Assets Measured on a Recurring Basis

Investments measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at September 30, 2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash and cash equivalents	\$ 26,848,772	\$ -	\$ -	\$ 26,848,772
Equity securities - large cap	3,837,245	-	-	3,837,245
Fixed income - floating rate notes	-	24,527	-	24,527
Mutual funds - equity	21,575,291	-	-	21,575,291
Mutual funds - fixed income	16,905,394	-	-	16,905,394
Mutual funds - hedge funds	35,430	-	-	35,430
Mutual funds - real assets	786,663	-	-	786,663
Alternative - real assets	-	-	1,629,814	1,629,814
Alternative - fund of funds	-	-	16,515,389	16,515,389
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total investments	<u>\$ 69,988,795</u>	<u>\$ 24,527</u>	<u>\$ 18,145,203</u>	<u>\$ 88,158,525</u>

	<u>Fair Value Measurements at September 30, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash and cash equivalents	\$ 1,005,062	\$ -	\$ -	\$ 1,005,062
Equity securities - large cap	491,201	-	-	491,201
Equity securities - mid cap	3,139,392	-	-	3,139,392
Equity securities - small cap	46,972	-	-	46,972
Equity securities - international	33,188	-	-	33,188
Mutual funds - equity	8,333,444	22,431,095	-	30,764,539
Mutual funds - fixed income	13,712,282	12,594,521	-	26,306,803
Mutual funds - real assets	-	1,942,931	-	1,942,931
Alternative - real assets	-	-	4,468,337	4,468,337
Alternative - fund of funds	-	-	16,524,845	16,524,845
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total investments	<u>\$ 26,761,541</u>	<u>\$ 36,968,547</u>	<u>\$ 20,993,182</u>	<u>\$ 84,723,270</u>

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2011 and 2010:

	<u>Real Assets</u>	<u>Fund of Funds</u>	<u>Total</u>
Assets at October 1, 2009	\$ 4,733,548	\$ 16,026,920	\$ 20,760,468
Investment income	415,368	1,082,925	1,498,293
Purchases of investments	-	375,000	375,000
Sales of investments	<u>(680,579)</u>	<u>(960,000)</u>	<u>(1,640,579)</u>
Assets at September 30, 2010	4,468,337	16,524,845	20,993,182
Investment income (loss)	559,495	(9,456)	550,039
Sales of investments	<u>(3,398,018)</u>	<u>-</u>	<u>(3,398,018)</u>
Assets at September 30, 2011	<u>\$ 1,629,814</u>	<u>\$ 16,515,389</u>	<u>\$ 18,145,203</u>

Unrealized gains (losses) total \$(198,446) and \$1,308,445 on investments shown in the table above that are still held by HPBC Foundation at September 30, 2011 and 2010, respectively.

Inputs and Valuation Techniques

In determining fair value, management uses various valuation approaches. With respect to investments for which quoted prices in active markets are observable (Level 1 inputs), management determines fair value based on the quoted prices at the measurement date.

With respect to investments using significant observable inputs other than Level 1 prices (Level 2) or significant unobservable inputs (Level 3) management determines fair value using the net asset value ("NAV"), but incorporates information such as historical and current performance of underlying assets, cash flow projections, levels of subscription and redemption, liquidity, and financial trend analysis of individual investment managers. The NAVs of investment vehicles are determined on the accrual basis of accounting in conformity with U.S. GAAP. Investment managers utilize standard valuation procedures and policies to assess the fair value of the underlying investment holdings to derive NAV. For holdings in marketable securities listed on national securities exchanges, the values represent the publicly traded values, and holdings in private securities are generally valued using the mark-to-market method, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations, appraisals, and/or the income approach.

In most instances, HPBC Foundation possesses the ability to redeem its investment at the NAV at the measurement date (Level 2 inputs), and in some instances additional restrictions on redemption, such as lock-ups and gates, are in place such that investment redemption at NAV is not possible at the measurement date (Level 3 inputs). HPBC Foundation's management has done considerable independent review of valuations reported by investment managers and determined that NAV is a reasonable and prudent estimate of fair value.

NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Equity Securities

The fair values of equity securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). Common stocks include a variety of large cap, mid cap, small cap, and international companies which have varying levels of capitalization.

Fixed Income Securities

Fixed income securities are valued using recently executed transactions, market price quotations (where observable), bond spreads, or credit default swap spreads. When observable quotations are not available, fair value is determined based on cash flow models using yield curves, bond or single name credit default swap spreads, and recovery rates based on collateral values as key inputs, using the market approach valuation technique (Level 2 inputs).

Equity Mutual Funds

Equity mutual funds consist of mutual funds which are primarily invested in equity securities. The fair values of mutual funds, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). For equity mutual funds not traded on an active market, HPBC Foundation's management has full transparency to the holdings of the funds, and the fair value of these investments is based on NAV, which is determined by the managers based upon the market prices of the underlying holdings of the funds (Level 2 inputs).

Fixed Income Mutual Funds

Fixed income mutual funds consist of mutual funds which are primarily invested in fixed income securities. The fair values of mutual funds, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). For fixed income mutual funds not traded on an active market, HPBC Foundation's management has full transparency to the holdings of the funds, and the fair value of these investments is based on NAV, which is determined by the managers based upon the market prices of the underlying holdings of the funds (Level 2 inputs).

Hedge Funds Mutual Funds

Hedge funds mutual funds consist of mutual funds which are primarily invested in securities, derivatives, and other instruments to establish long and short investment exposures around the world. The fair values of mutual funds, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Real Assets Mutual Funds

Real assets mutual funds consist of mutual funds which are primarily invested in commodities and futures contracts. The fair values of mutual funds, which are readily marketable, are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). For real assets mutual funds not traded on an active market, HPBC Foundation's management has full transparency to the holdings of the funds, and the fair value of these investments is based on NAV, which is determined by the managers based upon the market prices of the underlying holdings of the funds (Level 2 inputs).

HOSPICE OF PALM BEACH COUNTY FOUNDATION, INC.
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NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Alternative Real Assets Funds

Real asset mutual funds consist of mutual funds invested in real estate securities and other real estate investments. The fair value of real asset mutual funds is based on several valuation techniques including NAV reported by fund managers, which is determined by managers based on the value of underlying holdings of the funds using the market approach valuation technique (Level 3 inputs).

Alternative Funds of Funds

Funds of funds consist of mutual funds or limited partnerships invested in various funds with investment objectives focused on directional hedge and absolute return strategies. The fair value of funds of funds investments is based on several valuation techniques including NAV reported by fund managers, which is determined by managers based on the value of underlying holdings of the funds using the market approach valuation technique (Level 3 inputs).

Fair Values Based on Calculated Net Asset Values (NAV)

The table below presents liquidity information pertaining to investments for which fair values are determined on the basis of NAV and other valuation techniques at September 30, 2011:

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Real estate funds	\$ 1,629,814	Quarterly	Currently gated
Absolute return funds	8,355,798	Annually	90 days
Directional hedge funds	<u>8,159,591</u>	Annually	60 days
Level 3	<u>\$ 18,145,203</u>		

The table below presents liquidity information pertaining to investments for which fair values are determined on the basis of NAV and other valuation techniques at September 30, 2010:

	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Domestic equity funds	\$ 5,210,830	Daily	1-30 days
International equity funds	17,220,265	Daily, Monthly	1-30 days
Fixed income funds	12,594,521	Bi-Monthly, Monthly	1-30 days
Commodities funds	1,942,931	Monthly	1-30 days
Real estate funds	4,468,337	Quarterly	Currently gated
Absolute return funds	8,301,959	Annually	90 days
Directional hedge funds	<u>8,222,886</u>	Annually	60 days
Level 2 and Level 3	<u>\$ 57,961,729</u>		

Fixed Income Securities: Fixed income securities are purchased through a managed account, and consist of investment grade floating rate notes, which strive to deliver floating interest income that resets to prevailing interest rates while seeking to preserve principal. At September 30, 2011, there are no restrictions on redemption.

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NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Domestic Equity Funds: The funds' objectives are to seek long-term growth of capital through investment in publicly traded equities of large cap corporations based in the United States. These funds were redeemed during the year ended September 30, 2011.

International Equity Funds: The primary objective of these funds is to achieve long-term growth of capital. In pursuing this objective, these funds invest in diversified portfolios of small cap, mid cap, and large cap equity securities in countries other than the United States. The underlying assets of these funds consist of equities that are traded on international stock exchanges throughout the world. These funds were redeemed during the year ended September 30, 2011.

Fixed Income Funds: The objectives of these funds are to achieve favorable income-oriented returns and total investment return through investment in fixed income securities. An associated objective is the preservation and enhancement of principal. In pursuing these objectives these funds invest in government bonds issued in countries throughout the world, as well as other debt securities in large corporations mostly based in the United States. These funds were redeemed during the year ended September 30, 2011.

Commodities Funds: The objectives of these funds are to provide an enhancement to investors' portfolios and to provide a partial inflation hedge with an attractive risk return profile as compared to other products using a commodity index as a pool of commodities. To achieve these objectives, these funds invest substantially all of their assets through a "master-feeder" structure in investment companies with the same objectives as the fund ("master funds"). The master funds majority holdings consist of short term U.S. treasury bills and futures contracts with expiration dates between 1 and 10 months. Future contracts in the master funds are freely traded and listed on a national futures exchange. These funds were redeemed during the year ended September 30, 2011.

Real Estate Funds: These funds are designed to permit investors to commingle a portion of their assets for investment in both publicly owned real estate securities and privately owned real estate investments. Underlying assets in these funds consist of publicly traded real estate securities (in managed accounts), investment in private real estate operating companies, private real estate partnerships, and privately held real estate investment trusts ("REITs"). At September 30, 2011 and 2010, redemption on these funds is subject to a gate. In previous years, HPBC Foundation's management submitted a written request for full redemption of investments in real estate funds. Although gated, these funds currently make partial redemptions as underlying assets are realized and as liquidity permits. During the years ended September 30, 2011 and 2010, partial redemptions totaling \$3,398,018 and \$680,579, respectively, was made from the funds. Subsequent to September 30, 2011, an additional redemption totaling \$536,274 was made from the funds.

Absolute Return Funds: The funds' objective is to achieve long-term growth of capital with reduced volatility. In pursuing this objective, the funds allocate capital among various money managers that, as a group, employ a variety of investment techniques and strategies. By investing through this diverse group, the funds seek to provide investors with access to the varied skills and expertise of these managers while at the same time lessening risks and volatility associated with investing through any one particular manager. The funds' underlying assets consist of shares in private equity funds domiciled outside the United States. During the year ended September 30, 2011, HPBC Foundation's management submitted a request for full redemption of Absolute Return Funds, the proceeds of which will be received in January 2012. At September 30, 2011 and 2010, there are no restrictions on redemption.

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NOTE 3 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Directional Hedge Funds: The funds' objective is to achieve an annual return (over a market cycle) in excess of the S&P 500 and other benchmarks with a meaningfully lower volatility of returns of such benchmarks. These funds invest primarily with hedge fund managers who emphasize fundamental security analysis as the basis for their investment decisions and who manage investment partnerships and other investment vehicles which employ diverse investment styles and strategies. The funds' underlying assets consist of shares in private equity funds domiciled outside the United States. During the year ended September 30, 2011, HPBC Foundation's management submitted a request for full redemption of Directional Hedge Funds, the proceeds of which will be received in January 2012. At September 30, 2011 and 2010, there are no restrictions on redemption.

At September 30, 2011 and 2010, HPBC Foundation has no unfunded commitments to fund these investments.

NOTE 4 - NET ASSETS

HPBC Foundation's net assets at September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Undesignated	\$ 5,977,840	\$ 5,771,194
Board designated		
Operating reserves	50,000,000	50,000,000
Asset additions and replacements	10,000,000	5,000,000
Clinical systems replacement	-	5,000,000
Unfunded programs	7,000,000	7,000,000
Charity care	<u>3,000,000</u>	<u>3,000,000</u>
	<u>70,000,000</u>	<u>70,000,000</u>
Temporarily restricted	586,809	390,433
Permanently restricted	<u>2,700,000</u>	<u>2,700,000</u>
	<u>\$ 79,264,649</u>	<u>\$ 78,861,627</u>

NOTE 5 - ENDOWMENT ASSETS

Overview: As required by U.S. GAAP, HPBC Foundation's endowment fund is classified and reported based on the donor imposed restrictions as permanently restricted net assets. There are no donor-imposed restrictions on the earnings or losses related to investment of endowment funds other than support for HPBC's programs, which is achieved through annual grants made to HPBC from HPBC Foundation. Therefore, earnings or losses from the invested endowment funds are classified as unrestricted. HPBC Foundation does not separately report returns from individual investments. There are no quasi-endowment funds established pursuant to Board designations.

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NOTE 5 - ENDOWMENT ASSETS (Continued)

Interpretation of Relevant Law: Florida has adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), but as of September 30, 2011, UPMIFA is not yet effective. HPBC Foundation's Board of Directors has determined the requirements of Florida's version of the Uniform Management of Institutional Funds Act ("UMIFA") to center around the preservation of the fair value of the original investment as of the date of the asset transfer. The investments resulting from donations directing that they be invested in perpetuity are classified as permanently restricted. The earnings or losses from these investments are classified based on the donor's direction. For the years ended September 30, 2011 and 2010, earnings and losses from endowment investments are classified as unrestricted due to the donor's direction that the earnings would support the operations of HPBC. HPBC Foundation considers the following factors in making a determination to appropriate or accumulate its endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of HPBC Foundation 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 HPBC Foundation
- (7) The investment policies of HPBC Foundation

Return Objectives and Risk Parameters: HPBC Foundation's investment policy centers around the primary objective to preserve and protect its assets while seeking to earn a reasonable total return (income plus capital change) for each segment of its assets appropriate to meet HPBC Foundation's anticipated time horizon, liquidity needs, and risk tolerance for each segment.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate of return objectives, HPBC Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HPBC Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: HPBC Foundation provides grants to HPBC and others to assist with their programs and services. Grants are made in accordance with donor restrictions, if applicable.

Funds with Deficiencies: From time to time, the fair value of assets associated with the permanently restricted endowment fund may fall below the level that the donor requires HPBC Foundation to maintain. Deficiencies of this nature are reported in unrestricted net assets. Such amounts totaled \$445,875 and \$504,245 at September 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations.

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NOTE 5 - ENDOWMENT ASSETS (Continued)

Endowment Net Asset Composition by Type of Fund: HPBC Foundation's composition of donor restricted endowment assets and changes in balances for the years ended September 30 are as follows:

2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance	\$ (504,245)	\$ -	\$ 2,700,000	\$ 2,195,755
Interest and dividend income	2,472	-	-	2,472
Realized and unrealized gain on investments	<u>55,898</u>	<u>-</u>	<u>-</u>	<u>55,898</u>
Total endowment	<u>\$ (445,875)</u>	<u>\$ -</u>	<u>\$ 2,700,000</u>	<u>\$ 2,254,125</u>

2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance	\$ (686,232)	-	\$ 2,700,000	\$ 2,013,768
Interest and dividend income	7,400	-	-	7,400
Realized and unrealized gain on investments	<u>174,587</u>	<u>-</u>	<u>-</u>	<u>174,587</u>
Total endowment	<u>\$ (504,245)</u>	<u>\$ -</u>	<u>\$ 2,700,000</u>	<u>\$ 2,195,755</u>

NOTE 6 - RELATED PARTY TRANSACTIONS

Expenses incurred by HPBC Foundation in 2011 and 2010 for management services provided by Spectrum were \$113,197 and \$78,600, respectively.

In accordance with its charitable mission, HPBC Foundation provides grants to the Spectrum Affiliates. HPBC Foundation made grants to HPBC of \$4,330,652 and \$4,134,151 in 2011 and 2010, respectively, in support of various patient care and bereavement programs as well as other strategic initiatives.

As of September 30, 2011, HPBC Foundation owed \$8,512,185 and \$840,643, respectively, to HPBC and Spectrum, and is owed \$1,480 from TMS. As of September 30, 2010, HPBC Foundation owed \$6,093,095 and \$349,371, respectively, to HPBC and Spectrum, and was owed \$2,378 from TMS.

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NOTE 7 - LEASES

HPBC Foundation leases resale shops under operating leases that extend through March 2016. Total rent expense, included in occupancy and equipment expenses, amounted to \$292,242 in 2011.

Future minimum payments under the operating leases consist of the following:

2012	\$ 302,949
2013	188,784
2014	145,089
2015	150,293
2016	<u>76,925</u>
	<u>\$ 864,040</u>