

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Consolidated Financial Report
December 31, 2009

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
National Hospice and Palliative Care Organization, Inc.
Alexandria, Virginia

We have audited the accompanying consolidated balance sheet of the National Hospice and Palliative Care Organization, Inc. and Subsidiaries (the Organization) as of December 31, 2009, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2008 consolidated financial statements and, in our report dated June 22, 2009, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. 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 2009 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Hospice and Palliative Care Organization, Inc. and Subsidiaries as of December 31, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 29, 2010, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Vienna, Virginia
June 29, 2010

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

**Consolidated Balance Sheet
December 31, 2009
(With Comparative Totals For 2008)**

Assets	2009	2008
Cash And Cash Equivalents	\$ 1,796,664	\$ 2,853,277
Investments (Note 2)	4,324,806	3,806,821
Accounts Receivable, net	810,452	650,211
Promises To Give, net (Note 4)	414,606	856,137
Prepaid Expenses And Other Assets	381,169	460,258
Grants Receivable	130,914	457,780
Inventory, net	1,531,611	1,480,578
Property And Equipment, net (Note 5)	1,459,958	1,774,368
	\$ 10,850,180	\$ 12,339,430
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses (Note 6)	\$ 1,626,254	\$ 1,332,004
Grants payable	151,286	209,710
Line of credit (Note 10)	1,100,000	950,000
Deferred revenue (Note 7)	632,943	1,617,508
Deferred rent	886,285	893,754
Total liabilities	4,396,768	5,002,976
Commitments And Contingencies (Note 12)		
Net Assets		
Unrestricted		
Undesignated	3,331,124	3,272,153
Board designated (Note 9)	1,086,144	863,647
	4,417,268	4,135,800
Temporarily restricted (Note 8)	1,942,819	3,107,329
Permanently restricted (Note 1)	93,325	93,325
	6,453,412	7,336,454
	\$ 10,850,180	\$ 12,339,430

See Notes To Consolidated Financial Statements.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Consolidated Statement Of Activities
Year Ended December 31, 2009
(With Comparative Totals For 2008)

	2009			Total	2008
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and support:					
Membership dues	\$ 5,728,395	\$ -	\$ -	\$ 5,728,395	\$ 5,388,334
Grants and contributions	4,950,675	494,550	-	5,445,225	4,390,647
Conferences and symposia	3,032,606	-	-	3,032,606	3,278,826
Publications and products	1,226,198	-	-	1,226,198	1,335,722
Licensing	174,274	-	-	174,274	144,390
In-kind donations	172,080	-	-	172,080	306,189
Other	64,972	-	-	64,972	116,341
Royalties	34,096	-	-	34,096	65,621
Management fees	375	-	-	375	21,539
Net assets released from restrictions	1,659,060	(1,659,060)	-	-	-
Total revenue and support	17,042,731	(1,164,510)	-	15,878,221	15,047,609
Expenses:					
Program services:					
Provider Support and Access	4,285,936	-	-	4,285,936	3,474,861
Financial Resources	3,027,251	-	-	3,027,251	2,603,397
International Development	2,439,814	-	-	2,439,814	2,031,810
Public Policy and Advocacy	1,380,857	-	-	1,380,857	1,953,825
Clinical Excellence, Quality, and Research	835,305	-	-	835,305	1,303,367
Consumer/Caregiver Services	668,359	-	-	668,359	1,535,786
Communications	494,692	-	-	494,692	458,145
Total program services	13,132,214	-	-	13,132,214	13,361,191
Supporting services:					
Administration, Finance, and Operations	4,127,616	-	-	4,127,616	3,868,446
Fundraising	102,311	-	-	102,311	100,036
Total supporting services	4,229,927	-	-	4,229,927	3,968,482
Total expenses	17,362,141	-	-	17,362,141	17,329,673
Change in net assets from continuing operations	(319,410)	(1,164,510)	-	(1,483,920)	(2,282,064)
Investment income (loss) (Note 2)	600,878	-	-	600,878	(733,662)
Dissolution of NHOIA	-	-	-	-	42,007
Change in net assets	281,468	(1,164,510)	-	(883,042)	(2,973,719)
Net assets:					
Beginning	4,135,800	3,107,329	93,325	7,336,454	10,310,173
Ending	\$ 4,417,268	\$ 1,942,819	\$ 93,325	\$ 6,453,412	\$ 7,336,454

See Notes To Consolidated Financial Statements.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Consolidated Statement Of Functional Expenses
Year Ended December 31, 2009
(With Comparative Totals For 2008)

	2009												2008
	Provider Support And Access	Financial Resources	International Development	Public Policy And Advocacy	Clinical Excellence, Quality, And Research	Consumer/ Caregiver Services	Communications	Total Program Services	Administration, Finance, And Operations	Fundraising	Total Support Services	Total	
Salaries and benefits	\$ 1,393,818	\$ 526,776	\$ 1,959	\$ 379,527	\$ 475,198	\$ 218,043	\$ 209,585	\$ 3,204,906	\$ 2,692,892	\$ -	\$ 2,692,892	\$ 5,897,798	\$ 6,445,303
Grant expense	270,712	140,621	2,328,233	-	-	65,000	-	2,804,566	-	-	-	2,804,566	1,743,974
Professional and contract services	528,133	180,035	4,439	767,329	147,187	87,064	41,002	1,755,189	189,521	825	190,346	1,945,535	2,826,942
Meeting-related expenses and meals	1,096,931	217,811	8,150	114,999	36,461	9,340	454	1,484,146	91,023	29,631	120,654	1,604,800	1,380,929
Cost of sales/outourced services	23,805	837,446	6,762	8,412	5,521	11,911	8,342	902,199	754	1,253	2,007	904,206	788,698
Rent and related expenses	244,727	13,255	21,223	18,828	89,039	345	50,207	437,624	174,757	-	174,757	612,381	593,602
Bad debt expense	-	521,712	-	-	-	-	-	521,712	40,328	-	40,328	562,040	13,401
Web production/design/development	65,882	118,203	30	3,476	392	201,780	62,451	452,214	18,125	5,292	23,417	475,631	495,472
Travel-related expenses	180,196	54,815	51,143	29,781	26,341	16,787	665	359,728	93,709	11,842	105,551	465,279	689,922
Printing	94,487	133,111	5,500	3,544	2,168	28,721	72,214	339,745	28,254	12,216	40,470	380,215	453,271
Depreciation	-	-	-	-	-	-	-	-	358,315	-	358,315	358,315	285,547
Postage/delivery	35,432	171,539	1,289	2,527	2,888	16,489	22,724	252,888	10,617	2,906	13,523	266,411	354,438
Telephone, fax, email	60,727	8,063	3,292	20,543	11,768	4,644	10,340	119,377	97,561	840	98,401	217,778	193,096
Supplies	41,786	28,664	4,600	13,329	2,742	1,403	757	93,281	51,902	439	52,341	145,622	195,463
Bank and credit card fees	78,348	30,050	234	767	2,917	1,045	1,628	114,989	13,074	8,165	21,239	136,228	174,610
Exhibit fees	66,248	13,356	1,378	7,980	2,606	1,288	772	93,628	16,132	9,980	26,112	119,740	91,987
Miscellaneous expenses	24,541	15,107	518	4,820	2,070	4,499	1,372	52,927	43,348	3,675	47,023	99,950	117,145
Equipment-related expenses	54,762	10,060	1,062	663	2,596	-	-	69,143	17,420	-	17,420	86,563	145,834
Licenses/fees	3,407	1,266	-	-	3,375	-	-	8,048	54,475	13,723	68,198	76,246	27,330
Staff recruiting, development and training	2,537	298	-	2,739	758	-	1,729	8,061	62,900	615	63,515	71,576	134,892
Subscriptions	16,995	3,762	-	662	9,714	-	9,675	40,808	14,779	127	14,906	55,714	46,491
General repairs and maintenance	-	-	-	-	5,831	-	-	5,831	27,300	637	27,937	33,768	51,456
Taxes/sales tax	-	32	-	-	-	-	-	32	23,613	-	23,613	23,645	18,248
Dues	2,438	1,100	-	905	3,000	-	775	8,218	4,509	85	4,594	12,812	51,360
Reference materials	24	169	2	26	2,733	-	-	2,954	2,308	60	2,368	5,322	10,262
Total operating expenses	\$ 4,285,936	\$ 3,027,251	\$ 2,439,814	\$ 1,380,857	\$ 835,305	\$ 668,359	\$ 494,692	\$ 13,132,214	\$ 4,127,616	\$ 102,311	\$ 4,229,927	\$ 17,362,141	\$ 17,329,673

See Notes To Consolidated Financial Statements.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Consolidated Statement Of Cash Flows

Year Ended December 31, 2009

(With Comparative Totals For 2008)

	2009	2008
Cash Flows From Operating Activities		
Change in net assets	\$ (883,042)	\$ (2,973,719)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Bad debt expense for promise to give	562,040	13,401
(Decrease) increase in discount on promise to give	(83,288)	13,676
Depreciation	358,315	285,547
Loss (gain) on disposal of equipment	50,964	(515)
Donated equipment	-	(16,000)
Net realized and unrealized (gain) loss on investments	(486,678)	942,945
Deferred rent adjustment	(7,469)	861,149
(Gain) from dissolution of NHOIA	-	(42,007)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(160,241)	108,393
Promises to give	(37,221)	(213,973)
Prepaid expenses and other assets	79,089	(211,033)
Grants receivable	326,866	1,674,660
Inventory	(51,033)	(152,401)
Increase (decrease) in:		
Accounts payable and accrued expenses	294,250	(244,551)
Grants payable	(58,424)	17,431
Deferred revenue	(984,565)	1,092,418
Net cash (used in) provided by operating activities	(1,080,437)	1,155,421
Cash Flows From Investing Activities		
Proceeds on the sale of property and equipment	-	61,885
Purchases of property and equipment	(94,869)	(1,115,480)
Proceeds from sale of investments	1,580,763	4,444,089
Purchases of investments	(1,612,070)	(3,859,401)
Net cash used in investing activities	(126,176)	(468,907)
Cash Flows From Financing Activities		
Borrowings (principal payments) on line of credit, net	150,000	(175,000)
Net cash provided by (used in) financing activities	150,000	(175,000)
Net (decrease) increase in cash and cash equivalents	(1,056,613)	511,514
Cash And Cash Equivalents		
Beginning	2,853,277	2,341,763
Ending	\$ 1,796,664	\$ 2,853,277
Supplemental Disclosure Of Cash Flow Information		
Cash paid for interest	\$ 2,820	\$ 14,051
Supplemental Schedule Of Noncash Investing Activities		
Donated Computers and Information Technology Equipment	\$ -	\$ 16,000

See Notes To Consolidated Financial Statements.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

National Hospice and Palliative Care Organization, Inc. and Subsidiaries (the Organization) is comprised of four entities: National Hospice and Palliative Care Organization, Inc. (NHPCO) and its wholly-owned subsidiaries National Hospice Foundation (NHF); the Foundation for Hospices in Sub-Saharan Africa (FHSSA); and the Alliance for Care at the End of Life (ACEL).

National Hospice and Palliative Care Organization, Inc.: NHPCO is a not-for-profit, non-stock corporation whose mission is to promote the principles of the hospice concept and program of care for the terminally ill and their families among the general public and professionals; to act as a resource serving the people involved in, committed to, and providing services within the principles and concept of the hospice program of care; and to influence health programs and public policies relative to the hospice and palliative care needs of the terminally ill and their families. This is done through publications, seminars, annual meetings and the sale of other hospice related materials.

National Hospice Foundation: NHF's primary focus is to fund programs that enhance hospice awareness and access while educating the public about the quality and availability of hospice and palliative care. To this end, NHF supports the many projects, including quality and research initiatives, hospice/palliative care provider education activities, public policy and advocacy research, pediatrics, consumer engagement and caregiver services, grief and bereavement programs, and the development of global hospice partnerships.

Foundation for Hospices in Sub-Saharan Africa: FHSSA is a private not-for-profit organization that became affiliated with NHPCO beginning September 1, 2004. FHSSA is dedicated to serving individuals in hospice programs in the Sub-Saharan Africa region. The mission is to expand various programs and services to provide exceptional care for the terminally ill and dying in addition to providing seminars and conferences related to the hospice and palliative care needs of the terminally ill and their families.

Alliance for Care at the End of Life: ACEL, a 501(c)(4) organization, was created by NHPCO in April 2007 to provide a more aggressive and comprehensive advocacy voice that will serve the entire field and ultimately, one of America's most vulnerable populations – those nearing the end of life.

A summary of the Organization's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of NHPCO and its wholly-owned subsidiaries, NHF, FHSSA, and ACEL. All significant transactions between NHPCO, NHF, FHSSA, and ACEL have been eliminated in the consolidation.

Basis of accounting: The accompanying financial statements of the Organization are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (the Codification). As required by the Non-Profit Entities topic of the Codification, *Financial Statements of Not-for-Profit Organizations*, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and cash equivalents: For the purpose of reporting cash flows, the Organization considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Financial risk: The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant financial risk on cash.

The Organization invests in a professionally managed portfolio that contains common shares of publicly-traded companies, money market funds, mutual funds, government securities and mortgage and asset backed securities. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

Investments: The Organization's investments are reflected at market value. To adjust the carrying values of these investments, the change in fair market value is recorded as a component of investment income in the consolidated statement of activities.

Accounts receivable: Accounts receivable consist of amounts due to NHPCO from dues and subscriptions; the sale of marketplace products; advertising; conference registrations and exhibits; education programs, such as audio web seminars, management development programs, and continuing education; royalties; and profit sharing.

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. No interest is charged on past due receivables. The provision for an allowance for doubtful accounts as of December 31, 2009, was \$175,000.

Promises to give: Unconditional promises to give are recognized as support in the period the promise is made. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give are carried at original amount promised less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering prior history of donor and proven collectibility of past donations. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded when received. There was no provision for doubtful promises to give at December 31, 2009. Management believes all promises to give are fully collectible.

Grants receivable: The Organization receives grants and contracts from various entities, including foundations and the federal government, for various purposes. Unconditional grants are recognized as receivables and recorded as support in the period during which the grant is made. Conditional grants not yet received are accrued to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant. The Organization defers conditional grant revenues received under approved awards to the extent they exceed expenses incurred for the purposes specified under the grant restrictions.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Inventory: Inventory, consisting primarily of publications, membership items, books and training manuals and insignia items, is stated at the lower of cost, using the average cost method of valuation, or market. Based on a review of items held in stock, management establishes a reserve for any inventory determined to be non-salable. At December 31, 2009, the reserve for obsolete inventory was \$134,218.

Property and equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight-line method calculated to amortize the cost of the applicable assets over estimated useful lives of two to seven years. The Organization capitalizes all property and equipment purchased at a cost of \$1,000 or more.

Valuation of long-lived assets: The Organization accounts for the valuation of long-lived assets in accordance with the Codification. As required by the Non-Profit Entities topic of the Codification, *Accounting for the Impairment or Disposal of Long-Lived Assets*, it is required that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Unrestricted net assets: The Organization's unrestricted net assets are comprised of the following:

Undesignated net assets – Such amounts are unrestricted and are to be used for the Organization's ongoing operations

Board Designated Endowment Fund – The Fund was established by the Board to start an endowment fund to be held for long-term purposes with investment income to be used for general operating purposes.

Board Designated Zachary Morfogen Fund – The Fund was established by the Board in 1997. Generally, it is the Board's intention, with the concurrence of Mr. Morfogen, that the interest generated from the money contained within this fund be used to support the arts in hospice and hospice education. The Board may also designate that any portion of the interest may be retained within the Fund in order to increase the size of the Fund.

Board Designated Mahoney Leadership Fund – The Fund was established by the Board in 1997. Generally, it is the Board's intention, with the concurrence of Mr. Mahoney, that the interest generated from the money contained within this fund be used to support projects associated with improving leadership in the hospice community. Additionally, funds can be used to support scholarships to educational events for individuals working in hospice care to improve their leadership skills. The Board may also designate that any portion of the interest may be retained within the Fund to increase the size of the Fund.

Board Designated June and Paul Ebensteiner Fund – The Fund was established in 1998 and will be used to support the Organization's grant-making activities, to support programs and projects that improve end-of-life care, and to increase the access to hospice care.

Board Designated M. Catherine Ray Fund – The Fund was established in 2000 to support volunteer activity within hospice. The Fund was concluded in 2009.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Temporarily restricted net assets: The Organization reports gifts of cash and other restricted support, if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Investment gains and losses earned on temporarily restricted funds held by the Organization are recorded as unrestricted gains and losses.

Permanently restricted net assets: Represents contributions received from donors to be held in perpetuity. Investment earnings are used to fund general operations. The Organization records investment earnings from their permanently restricted net assets to temporarily restricted net assets, until appropriated for expenditure.

Revenue and support: Membership dues are recognized ratably over the membership period. Memberships received in advance are deferred to the appropriate membership period.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 consolidated statement of activities as net assets released from restrictions. Grants received that are considered to be conditional promises to give are recorded as refundable advances until the conditions are substantially met.

Conference and symposia revenues are recognized at the time of the event. Amounts received in advance are recorded as deferred revenue.

Publications and products revenue is recognized at the time the sale transaction is complete.

Donated goods and services: Donated goods and services are recorded at their estimated fair market value on the date of the receipt.

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities.

Use of estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Income taxes: NHPCO, NHF, and FHSSA are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

ACEL is a tax-exempt organizations under Section 501(c)(4) of the Internal Revenue Code.

On January 1, 2009, the Organization adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2006.

Reclassification: Certain amounts in the 2008 financial statements have been reclassified to conform to the presentation in the 2009 financial statements. These reclassifications had no effect on previously reported change in net assets.

Prior year information: The financial statements include certain prior year summarized comparative information in total but not by 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, 2008, from which the summarized information was derived.

Subsequent events: The Organization evaluated subsequent events for potential required disclosures through June 29, 2010, which is the date the financial statements were available to be issued.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 2. Investments

Investments consist of the following at December 31, 2009:

Mutual funds	\$	1,496,670
Equities		1,327,236
Money market funds		1,179,823
Government securities		200,701
Mortgage and asset backed securities		120,376
	\$	<u>4,324,806</u>

Investment income consists of the following for the year ended December 31, 2009:

Realized and unrealized gains	\$	486,678
Interest and dividends		114,200
	\$	<u>600,878</u>

Note 3. Fair Value Measurements

The Fair Value Topic of the Codification 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the fair value disclosures of the Codification. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by the Organization at December 31, 2009.

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

Description	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 1,496,670	\$ 1,496,670	\$ -	\$ -
Equities	1,327,236	1,327,236	-	-
Money market funds	1,179,823	-	1,179,823	-
Government securities	200,701	-	200,701	-
Mortgage and asset backed securities	120,376	-	120,376	-
	<u>\$ 4,324,806</u>	<u>\$ 2,823,906</u>	<u>\$ 1,500,900</u>	<u>\$ -</u>

Equities, money market funds and mutual funds are classified as Level 1 instruments, as they are actively traded on a public exchange.

Government securities and mortgage and asset backed securities are classified as Level 2 instruments, as they are not traded in an active market. Their value is determined using models and other valuation methodologies, which are collaborated by market data.

Note 4. Promises To Give

Unconditional promises to give consist of the following at December 31, 2009:

Unconditional promises to give before unamortized discount and allowance for uncollectibles	\$ 441,829
Less unamortized discount at 5%	27,223
	<u>\$ 414,606</u>

Amounts are due as follows:

Less than one year	\$ 277,496
One to nine years	164,333
	<u>\$ 441,829</u>

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 5. Property And Equipment

At December 31, 2009, property and equipment is comprised of the following:

Asset Category	Estimated Life	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and equipment	3 to 7 years	\$ 1,124,998	\$ 701,662	\$ 423,336	\$ 199,385
Leasehold improvements	3 to 7 years	1,012,152	103,842	908,310	94,542
Software	3 years	521,760	419,248	102,512	64,388
Timeshare	Indefinite	16,000	-	16,000	-
Fine art	Indefinite	9,800	-	9,800	-
		<u>\$ 2,684,710</u>	<u>\$ 1,224,752</u>	<u>\$ 1,459,958</u>	<u>\$ 358,315</u>

Note 6. Accounts Payable And Accrued Expenses

Accounts payable and accrued expenses consist of the following at December 31, 2009:

Accounts payable	\$ 955,712
Other accrued expenses	230,166
Accrued vacation	230,137
Accrued salary	210,239
	<u>\$ 1,626,254</u>

Note 7. Deferred Revenue

Deferred revenue consists of the following at December 31, 2009:

Conference fees	\$ 253,128
Refundable advances	103,413
Gala registration	98,076
Marketplace	73,200
Membership dues	65,065
Advertising	30,396
Education	9,665
	<u>\$ 632,943</u>

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2009:

	Balance December 31, 2008	Additions	Releases	Balance December 31, 2009
Palliative care in Africa	\$ 580,726	\$ -	\$ 212,358	\$ 368,368
NHF – Alliance	313,810	-	60,500	253,310
Diana Legacy Fund	230,197	-	-	230,197
Ford Foundation	109,851	200,000	109,851	200,000
Retirement Research Foundation – Grant	169,944	-	17,650	152,294
Presidio	162,306	653	41,598	121,361
Pediatrics	600,841	-	489,763	111,078
Hospice of Baltimore/Gilchrist	99,824	-	7,420	92,404
Strategic	100,000	-	28,391	71,609
Advocacy	-	69,204	-	69,204
Grant: RWJF Summit	94,785	-	38,949	55,836
NHF – Year End Individual Pledges	-	53,581	-	53,581
NHF – Research	-	45,500	5,000	40,500
NHF – Caregiving	-	32,789	-	32,789
American Jewish World Service – Grant	22,000	30,000	22,000	30,000
Jacob and Valeria Langeloth	230,361	-	203,637	26,724
Endo	-	15,000	-	15,000
NHPCO – Caregiving	49,623	7,042	49,833	6,832
Other	6,458	-	-	6,458
NHF – Annual Restricted	1,236	1,578	-	2,814
Isenberg	2,250	-	-	2,250
Caring Connections	210	-	-	210
Radiation Therapy Study	106,470	-	106,470	-
The Diana Princess of Wales Foundation	89,742	-	89,742	-
FHSSA Fund	34,779	-	34,779	-
Time Restricted – Charitable Lead Trust	26,102	-	26,102	-
Quality	25,000	-	25,000	-
Assistance for Hospice Training	14,795	-	14,795	-
Hospice disaster relief	2,759	-	2,759	-
Eleanor Blaney	-	6,500	6,500	-
Estate of Mildred Rueda	-	7,703	7,703	-
Open Society Institute (OSI)	-	25,000	25,000	-
Capital Campaign	33,260	-	33,260	-
	\$ 3,107,329	\$ 494,550	\$ 1,659,060	\$ 1,942,819

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 9. Board Designated and Permanently Restricted Net Assets

In August 2008, the Codification on *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* was issued. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. Management has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, 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 permanently restricted cash contributions and (b) the discounted value of future permanently restricted cash contributions, net of allowance for uncollectible promises. The remaining portion of donor-restricted cash contributions are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

- The purposes of the Organization and donor-restricted endowment fund
- The duration and preservation of the funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Investment policies

Spending policy: All spending request proposals to release board designated funds are submitted to the Organization's Executive Committee of the Board of Directors/Trustees. The requests are discussed and must be approved by a majority vote. Once approved at the Executive Committee level the proposal to release funds is then taken to the Organization's board of directors/trustees for final approval.

Investment policy: The Organization invests all permanently restricted funds, as well as other invested funds, in a pooled fund managed by an investment manager according to the objectives and guidelines of the Organization's Statement of Investment Objectives. The Organization's overall objective is to outperform inflation while minimizing potential losses. Ultimate authority and responsibility for the financial policies rest with the Board of Directors.

The Organization's endowment funds consist of the following at December 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 93,325	\$ 93,325
Board-designated endowment funds	1,086,144	-	-	1,086,144
	<u>\$ 1,086,144</u>	<u>\$ -</u>	<u>\$ 93,325</u>	<u>\$ 1,179,469</u>

Endowment fund activity for the year ended December 31, 2009, consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 863,647	\$ -	\$ 93,325	\$ 956,972
Grants and contributions	25,000	-	-	25,000
Investment gain	197,497	15,859	-	213,356
Amounts appropriated for expenditure	-	(15,859)	-	(15,859)
Endowment net assets, end of year	<u>\$ 1,086,144</u>	<u>\$ -</u>	<u>\$ 93,325</u>	<u>\$ 1,179,469</u>

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Notes To Consolidated Financial Statements

Note 10. Line Of Credit

NHPCO has a revolving line of credit with a limit of \$1,500,000. This line of credit is secured by NHPCO's investments. Outstanding debt under this agreement bears interest at the London InterBank Offered Rate (LIBOR) plus 2.5%, which translated into a rate of 2.74% at December 31, 2009. The outstanding amount on this line of credit at December 31, 2009, was \$1,100,000.

Note 11. Retirement Plan

The Organization maintains a profit sharing plan for all eligible employees. Under this plan, the Organization contributes a certain percentage of each eligible employee's gross salary, as determined by the Board of Directors. The percentage was 7% for the year ended December 31, 2009. In addition, employees are eligible to make elective deferrals through a separate 403(B) plan up to a certain percentage of their annual salary, which is immediately vested. Employer contributions under the profit sharing plan for the year ended December 31, 2009, were \$317,283.

Note 12. Commitments And Contingencies

Office lease: The Organization leases office space under a non-cancelable operating lease expiring in 2018. Future minimum rental payments, exclusive of any future escalation charges for real estate taxes and operating expenses for the remainder of the lease, is as follows:

Years Ending December 31,

2010	\$	567,300
2011		593,589
2012		611,297
2013		629,739
2014		648,631
2015 and thereafter		2,795,040
	\$	<u>5,845,596</u>

Rent expense for the year ended December 31, 2009, was \$564,081.

Hotel contracts: The Organization has entered into several contracts for hotel space relating to various events through 2010. In the event of cancellation, the Organization is required to pay various costs of the hotel rooms as stipulated in the contracts, the amounts of which are dependent upon the dates of cancellation. The Organization does carry event cancellation insurance that would cover any incurred costs as a result of cancellation.

Employment agreement: The Organization has an employment agreement with the President and CEO. The terms of the agreement stipulate that if employment is involuntarily terminated by the Board, the Organization will continue to pay the employee's salary for a maximum period. The length of the maximum period starts at six months after completion of the first year and one additional month for each subsequently completed year of tenure with the Organization up to a maximum of 12 months.

Federal award: The Organization participated in a federally assisted grant program, which is subjected to financial and compliance audits by the federal agency or its representatives. As such, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On The Supplementary Information

To the Board of Directors
National Hospice and Palliative Care Organization, Inc.
Alexandria, Virginia

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information which follows is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of activities of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Vienna, Virginia
June 29, 2010

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

**Consolidating Balance Sheet
December 31, 2009**

Assets	NHPCO	NHF	FHSSA	ACEL	Eliminating Entries	Consolidated
Cash And Cash Equivalents	\$ 527,217	\$ 730,976	\$ 510,360	\$ 28,111	\$ -	\$ 1,796,664
Investments	3,119,747	1,205,059	-	-	-	4,324,806
Accounts Receivable, net	752,598	-	21,343	120,346	(83,835)	810,452
Promises To Give, net	-	380,025	37,649	-	(3,068)	414,606
Prepaid Expenses And Other Assets	335,461	45,562	-	146	-	381,169
Grants Receivable	9,984	848,737	204,510	-	(932,317)	130,914
Due From Affiliates	235,346	-	-	-	(235,346)	-
Inventory, net	1,531,611	-	-	-	-	1,531,611
Property And Equipment, net	1,443,958	16,000	-	-	-	1,459,958
	<u>\$ 7,955,922</u>	<u>\$ 3,226,359</u>	<u>\$ 773,862</u>	<u>\$ 148,603</u>	<u>\$ (1,254,566)</u>	<u>\$ 10,850,180</u>

Liabilities And Net Assets

Liabilities						
Accounts payable and accrued expenses	\$ 1,548,530	\$ 163,516	\$ 1,113	\$ -	\$ (86,905)	\$ 1,626,254
Due to affiliates	-	138,699	96,647	-	(235,346)	-
Grants payable	848,736	186,348	48,517	-	(932,315)	151,286
Line of credit	1,100,000	-	-	-	-	1,100,000
Deferred revenue	431,454	98,076	103,413	-	-	632,943
Deferred rent	886,285	-	-	-	-	886,285
Total liabilities	<u>4,815,005</u>	<u>586,639</u>	<u>249,690</u>	<u>-</u>	<u>(1,254,566)</u>	<u>4,396,768</u>
Net Assets						
Unrestricted						
Undesignated	1,198,098	1,460,251	524,172	148,603	-	3,331,124
Board designated	-	1,086,144	-	-	-	1,086,144
	<u>1,198,098</u>	<u>2,546,395</u>	<u>524,172</u>	<u>148,603</u>	<u>-</u>	<u>4,417,268</u>
Temporarily restricted	1,942,819	-	-	-	-	1,942,819
Permanently restricted	-	93,325	-	-	-	93,325
	<u>3,140,917</u>	<u>2,639,720</u>	<u>524,172</u>	<u>148,603</u>	<u>-</u>	<u>6,453,412</u>
	<u>\$ 7,955,922</u>	<u>\$ 3,226,359</u>	<u>\$ 773,862</u>	<u>\$ 148,603</u>	<u>\$ (1,254,566)</u>	<u>\$ 10,850,180</u>

National Hospice And Palliative Care Organization, Inc. And Subsidiaries

Consolidating Statement Of Activities Year Ended December 31, 2009

	NHPCO	NHF	FHSSA	ACEL	Eliminating Entries	Consolidated
Revenue and support:						
Membership dues	\$ 5,728,395	\$ -	\$ -	\$ -	\$ -	\$ 5,728,395
Grants and contributions	1,134,160	937,191	2,971,092	647,500	(244,718)	5,445,225
Conferences and symposia	2,559,368	473,238	49,653	-	(49,653)	3,032,606
Publications and products	1,222,219	3,598	381	-	-	1,226,198
Licensing	174,274	-	-	-	-	174,274
In-kind donations	166,083	158,621	133,206	16,752	(302,582)	172,080
Other	38,940	27,482	5,986	-	(7,436)	64,972
Royalties	33,448	648	-	-	-	34,096
Management fees	1,370,289	-	-	-	(1,369,914)	375
Support from affiliate	-	-	260,000	315,203	(575,203)	-
Total revenue and support	12,427,176	1,600,778	3,420,318	979,455	(2,549,506)	15,878,221
Expenses:						
Program services:						
Provider Support and Access	4,285,936	-	-	-	-	4,285,936
Financial Resources	2,095,287	1,765,868	-	-	(833,904)	3,027,251
International Development	291,059	-	2,894,682	-	(745,927)	2,439,814
Public Policy and Advocacy	1,150,181	-	-	656,660	(425,984)	1,380,857
Clinical Excellence, Quality, and Research	835,305	-	-	-	-	835,305
Consumer/Caregiver Services	668,359	-	-	-	-	668,359
Communications	494,692	-	-	-	-	494,692
Suspense	(349,837)	126,393	184,722	38,722	-	-
Total program services	9,470,982	1,892,261	3,079,404	695,382	(2,005,815)	13,132,214
Supporting services:						
Administrative and general	3,954,207	101,157	186,356	322,795	(436,899)	4,127,616
Fundraising	-	199,633	9,470	-	(106,792)	102,311
Total supporting services	3,954,207	300,790	195,826	322,795	(543,691)	4,229,927
Total expenses	13,425,189	2,193,051	3,275,230	1,018,177	(2,549,506)	17,362,141
Change in net assets from continuing operations	(998,013)	(592,273)	145,088	(38,722)	-	(1,483,920)
Investment income	389,389	211,489	-	-	-	600,878
Change in net assets	(608,624)	(380,784)	145,088	(38,722)	-	(883,042)
Net assets:						
Beginning	3,749,541	3,020,504	379,084	187,325	-	7,336,454
Ending	\$ 3,140,917	\$ 2,639,720	\$ 524,172	\$ 148,603	\$ -	\$ 6,453,412