

EXECUTIVE SUMMARY

Angel Medical Center (Angel) operates, as a department of the hospital, Angel Home Health and Hospice, a licensed and Medicare-certified hospice agency. Angel Medical Center, along with Hospice House Foundation of WNC, Inc. (Foundation), is interested in the possibility of developing a non-profit freestanding hospice facility to meet the end-of-life care needs of Macon County and surrounding areas. These entities have engaged Health Planning Source (HPS) to conduct a market feasibility study and develop a business plan for the proposed facility. The analysis and recommendations contained within this report are based on information provided to HPS by Angel and the Foundation, as well as primary research and publicly reported statewide and national hospice information from The Carolinas Center for Hospice and End of Life Care (The Carolinas Center) and the National Hospice and Palliative Care Organization (NHPCO).

The market feasibility study is based on a primary service area of Macon County and a total service area expanded to include not only Macon but also Clay, Jackson, and Swain counties. The market feasibility study concludes that community demand exists for the development of a hospice facility to provide three levels of hospice care: inpatient acute care, inpatient respite care, and residential care. Specifically, the demand analysis and primary research included in this report suggest the development of a 10- to 12-bed facility.

For purposes of the business plan, it is assumed that the proposed 10- or 12-bed facility (five or six inpatient beds and five or six residential beds) would be between 12,000 to 15,000 square feet located on approximately eight acres of land in Franklin, NC. Development costs associated with the proposed facility are projected to range from \$3.9 to \$4.6 million, depending on the size of the facility, all of which are assumed to be funded through a capital campaign. The income statement, based upon the results of the market feasibility study and business plan, shows a positive net income for a 10-bed facility by the third year of operation and for a 12-bed facility by the second year of operation. Additionally, net income adjusted for depreciation and amortization of start-up costs reflects a positive bottom line by the second year for both a 10-bed and 12-bed facility.

INTRODUCTION

Angel Medical Center and the Hospice House Foundation of WNC are interested in the possibility of developing an inpatient and residential hospice facility to meet the needs of residents from Macon County and surrounding areas in Clay, Jackson, and Swain counties.

Hospice facilities are typically developed in response to a need for services that do not already exist or to expand existing capacity. In addition, facilities are often created to increase control of the inpatient component of hospice care, particularly in areas of clinical assessment, care planning, case management, and interdisciplinary team coordination. Frequently, inpatient care outside a hospice facility is fragmented, and the hospice home care staff is constantly challenged to orient, train, and educate the staff of the institutional inpatient provider.

Common characteristics of hospice facilities include:

- Flexibility compared to institutional routines, including visiting hours and provisions for overnight stays by family members;
- Homelike décor;
- Interdisciplinary team care and services, with staffing that reflects the extensive care and needs of both patients and families;
- Provisions for teaching caregiving skills to family members so they can participate in the care and support of the patient while in the facility;
- Bed, wheelchair, and gurney accessible patient care and common areas; and
- Continuity between home and facility-based care, all consistent with the overall hospice interdisciplinary team plan of care¹.

The proposed hospice facility would provide all three levels of care - inpatient acute care, residential and respite care - as described below:

1. Inpatient acute care is typically a short length of stay – a few days – designed to meet the following needs:

¹ *Hospice Operations Manual*, National Hospice Organization, 1988.

- Diagnosis/assessment/evaluation, particularly as a transition from a hospital-based acute care stay to initial admission to the hospice program;
- Pain management;
- Symptom control;
- Care when a patient's condition is beyond the capability of the home setting; and
- End-stage care.

Although dependent on the specific needs of the patient, inpatient acute care is directed by and primarily provided by licensed nursing staff.

2. Residential care is a longer length of stay – currently averaging 48 days – and has been designed, at least traditionally, for patients who do not have a primary caregiver in the home and can no longer manage themselves safely at home, or for patients whose primary caregiver can no longer care for the patient at home. For residential patients, the facility provides 24-hour personal care services to replace the primary caregiver, while the hospice home care team continues to provide interdisciplinary care, but in the facility rather than the patient's home.
3. Respite care is a shorter length of stay and is designed to provide relief for family members and other caregivers from the burden of 24-hour care giving.

Not only are these levels of care defined in North Carolina regulations, but also Medicare, Medicaid, and most private payors reimburse based on these levels of care. Additionally, staffing patterns of the facility will vary significantly based on the level of care provided. Therefore, the proposed market feasibility and business plan have been developed based on these levels of care.

MARKET FEASIBILITY

Primary Market Research

To validate demand analysis and to determine the best market positioning strategy for the proposed hospice facility, HPS completed a primary research effort that included interviews with the following groups:

- Physicians
- Discharge planners
- Hospice staff members and volunteers
- Former hospice family members
- Angel Medical Center Board and Angel Hospice Foundation Board

Key findings from this research are summarized below.

Physician Interviews

- Agreement exists among the physicians interviewed that the service area would benefit from a more comprehensive offering of hospice services, particularly given the rapid growth and aging of the population, the number of retirees with no close family, and the lack of a hospice facility west of Asheville. All physicians interviewed indicated an interest in referring patients to a freestanding hospice facility if one existed.
- Hospice patients who might be appropriate for admission to a hospice facility are currently cared for at home or admitted to a nursing facility, of which there is only one in Macon County. There is a shortage of quality nursing home availability in the area; further, nursing home staff are not appropriately trained to provide good palliative care.
- The physicians interviewed believe that patients and families would be very receptive to referral to a freestanding hospice facility in that it would provide a more appropriate setting than the home (when inadequate caregiving is available) or a nursing home.
- While a greater offering of hospice services is necessary, the immediate development of a freestanding hospice facility might not be necessary and might be a "leap of faith." A

lower-cost alternative of developing a dedicated inpatient hospice unit in the hospital might be explored as an interim step toward the ultimate goal of constructing a freestanding facility.

- All interviewees cited physician education as both a critical success factor and the greatest barrier to the success of a freestanding hospice facility. The majority of physicians refer patients to hospice services too late, many struggle with the notion that a referral to hospice is the equivalent of “giving up” on their patients or that their patients will have that perception, and many physicians are uncomfortable turning over the care of their patients to a hospice medical director. Focused time and effort must be given to physician education in order to achieve success. Suggestions for tackling the education challenge include:
 - Assess how widespread the lack of education is by identifying which physicians refer to hospice and how early;
 - Schedule time for hospice and palliative care education at Department of Medicine meetings;
 - Hold evening dinner meetings with a focus on hospice and palliative care education;
 - Solicit physician champions for hospice from outside the community.
- The physicians interviewed generally agree that the community would be receptive to raising the necessary capital to jump-start such a project; however, expecting to maintain ongoing operations with public contributions is not practical. The hospice facility would have to rely on the medical center for ongoing financial viability. Further, a hospice facility would have the greatest chance for success if a more robust hospice program were in place thereby allowing the profits of the hospice program to offset operational losses incurred by the facility.

Discharge Planners

- The discharge planners interviewed strongly believe that a need exists for a freestanding hospice facility in the area given that none exists west of Asheville. Further, the hospice facility in Asheville is consistently full.
- Hospice patients who are appropriate for admission to a hospice facility are often admitted to a nursing home or the hospital to die. Patients who are in the hospital for symptom management are often returned to the nursing home for comfort measures, only to return to

the hospital at the very end of life. Repeated transitions from the nursing home to the hospital result in a break in the continuity of care for the patient as they are dropped from and subsequently re-admitted to hospice each time. Some patients come to the hospital regularly for five days of respite care.

- Nursing homes are not appropriate settings for end-of-life care. Staff are not appropriately trained to provide palliative, bereavement, and pre-grief services, and rooms are semi-private and do not allow sufficient space and privacy for family to gather.
- The discharge planners interviewed believe that physicians and patients/families alike would be receptive to referral to a freestanding hospice facility.

Hospice Staff Members and Volunteers

- Staff and volunteers agree that a hospice inpatient/residential facility is much needed in Macon County and the surrounding areas and encounter many patients in the course of their work who could benefit tremendously from such a facility.
- Macon County has a significant elderly population, largely due to the influx of retirees to the area, many of whom do not have local family members.
- Franklin would be the ideal location for a hospice facility given its centrality in the region of the state west of Asheville, where the closest hospice facility is located. Franklin is also easily accessible by several major traffic arteries.
- Patients who would benefit from a hospice facility are often placed in a nursing home or a hospital setting to live their final days because their caregiver is ill-equipped to care for them at home or does not wish for them to die at home.
- The full hospice philosophy of care is not feasible in a hospital or in the nursing home setting; while adequate care can be provided, both still represent an institutional health care environment, staff are not as adept at the hospice philosophy of care, and there is inadequate space and attention available for family members. Families should not be forced to grieve in the public spaces of a hospital or nursing home surrounded by people who do not know how to respond to their grief.
- Angel Medical Center strives to provide best practices and excellence in care; end-of-life care should be provided with the same excellence as care in any other stage of life.

- The visibility inherent with a freestanding hospice facility would increase awareness of end-of-life care services in the region and contribute to increased public education as well as physician education. Many patients are not receiving hospice services only because they lack awareness. Similarly, many physicians are reluctant to refer patients to hospice in a timely manner due to a lack of understanding and education; many physicians do not want to admit to family that they are "giving up" and many also are hesitant to turn the care of their patients over to a hospice medical director.
- There may be unexplored components of hospice care that Angel does not currently provide for which there are reimbursement sources or which the provision of might increase the awareness of hospice services and therefore increase Angel's hospice utilization. Angel could more easily expand the breadth of hospice services with the visibility afforded by a freestanding hospice facility. Growth in new services could potentially generate more revenue upstream and aid in offsetting losses associated with the facility.
- The community is a very giving one; Macon County raises more money for Relay for Life than any other similarly sized county in the country. This speaks to the community's willingness to financially support a worthy cause, such as a freestanding hospice facility, but also indicates that a capital campaign for such an effort would compete with other traditional fundraising programs.
- Hospice staff and volunteers perceive physician education and support from the hospital to be the main critical success factors. Simultaneously, they perceive the greatest potential barrier to success would be not having the hospital's support. The belief among staff and volunteers is that the hospital must want this initiative to succeed as much as it wants the latest technology and new operating rooms. The hospital must not exclude any stage of life from excellence in providing health care to the community.
- An additional barrier to success is the difficulty in hiring and retaining quality health care staff in the community; if it is a struggle to effectively staff for routine services, the struggle will only be exacerbated when attempting to staff for 24/7 care.
- Staff and volunteers agree that the majority of area physicians would be receptive to referring their patients to an inpatient/residential facility if one existed, but the need for physician education is a real one. The culture in the region is to medically treat patients

aggressively; as a result, patients are often referred to hospice in the final days or hours of life.

- It is believed that the presence of such a facility may encourage earlier referrals among physicians.
- Similarly, staff and volunteers do not anticipate patient and/or family resistance to the concept.
- Generally, the staff and volunteers believe strongly that the proposed facility would be successful and the community would generously support the facility.

Former Hospice Family Members

- There is a definite need for all levels of hospice facility care in the region west of Asheville. Franklin is an ideal location, both due to its centrality and proximity to other medical services as well as other amenities.
- A hospice facility would improve the dying process for patients and their families by providing a desirable alternative to dying at home or living in a hospital bed or nursing home at the end-of-life. Hospital and nursing home staff are not trained in providing palliative care or in providing emotional care to families. Further, the clinical approach and medication philosophy for hospice care differs tremendously from patients still seeking aggressive, curative care.
- A facility would also simplify the end-of-life experience by providing continuity of care (alleviating the need to be shuffled from physician to physician and the constantly changing staff of a nursing home) and the dignity and respect that is only possible when surrounded by a loving staff in a loving environment. Hospice also allows family members to be family rather than clinical caregivers.
- The group is confident that the community would financially support a hospice facility, both in raising capital to develop it and in helping to fund ongoing operations.
- Ideal characteristics of a facility include:
 - Loving, caring staff;
 - Respect/privacy of a private room;
 - Non-sterile environment and home-like decor;
 - Comfortable accommodations for family;

- Large windows, manicured gardens, birdfeeders;
- Gathering places and kitchen for family;
- Pet- and child-friendly atmosphere.

Angel Medical Center Board and Hospice House Foundation Board

- The members of the group agree that a need exists for both the inpatient and residential level of hospice facility care in the community; Franklin would be the ideal location.
- Many people in the community are isolated and either live alone or have elderly spouses incapable of caring for them; many also have no nearby family members.
- Angel has a very dedicated Hospice House Foundation Board team; as a result, there is general confidence in the Foundation's ability to successfully raise capital to develop a hospice facility. However, obtaining community support to fund ongoing operations will be more difficult. Focused and continuous marketing of end-of-life care will be crucial to successful fundraising efforts.
- Critical success factors will be raising sufficient capital to develop the project, the support of the hospital, and hiring and retaining quality staff. Another success factor will be engaging other hospice agencies early and often in making this initiative a regional effort.
- The greatest potential barrier to success is the lack of financial and operational viability of the hospice facility and the hospital's unwillingness/inability to commit long-term to offset losses incurred by the facility.

In addition to the findings stated above, HPS asked each interviewee/group for an estimate regarding a reasonable geographic radius from which Angel could expect patients and families to travel to utilize the proposed facility if it were located in Franklin. Responses ranged from 30 minutes to an hour of travel time; the general consensus was that a 30-mile radius was a reasonable distance.

Regulatory Requirements

The North Carolina Division of Health Service Regulation (DHSR) issues administrative rules for the licensing of hospice facilities (G.S. §131E-201 *et seq*). Definitions included within those rules relevant to the proposed hospice facility include:

- **Hospice:** Any coordinated program of home care with provision for inpatient care for terminally ill patients and their families. This care is provided by a medically directed interdisciplinary team, directly or through an agreement under the direction of an identifiable hospice administration. A hospice program of care provides palliative and supportive medical and other health services to meet the physical, psychological, social, spiritual, and special needs of patients and their families, which are experienced during the final stages of terminal illness and during dying and bereavement.
- **Hospice Inpatient Facility:** A freestanding licensed hospice facility or a designated inpatient unit in an existing health service facility which provides palliative and supportive medical and other health services to meet the physical, psychological, social, spiritual, and special needs of the terminally ill patients and their families in an inpatient setting.
- **Hospice Patient:** A patient diagnosed as terminally ill by a physician licensed to practice medicine in North Carolina, who the physician anticipates to have a life expectancy of weeks or months, generally not to exceed six months and who alone, or in conjunction with designated family members, has voluntarily requested and been accepted into a licensed hospice program.
- **Hospice Services:** The provision of palliative and supportive medical and other health services to meet the physical, psychological, social, spiritual, and special needs of patients and their families, which are experienced during the final stages of terminal illness and during dying and bereavement.

- **Hospice Team or Interdisciplinary Team:** Consists of the following hospice personnel: physician licensed to practice medicine in North Carolina; nurse holding a valid, current license as required by North Carolina law; social worker; clergy member; and trained hospice volunteer. Other health care practitioners may be included on the team as the needs of the patient dictate or at the request of the physician. Other providers of special services may also be included as the needs of the patient dictate.
- **Identifiable Hospice Administration:** An administrative group, individual, or legal entity that has an identifiable organizational structure, accountable to a governing board directly or through a chief executive officer. This administration shall be responsible for the management of all aspects of the program.
- **Palliative Care:** Treatment directed at controlling pain, relieving other symptoms, and focusing on the special needs of the patient and family as they experience the stress of the dying process, rather than the treatment aimed at investigation and intervention for the purpose of cure or prolongation of life.

In addition, North Carolina licensure rules (10A NCAC 13K .0101 *et seq*) require inpatient/residential hospice facilities, such as the one proposed, to meet the following criteria:

- Hospice care shall be available 24 hours a day, seven days a week.
- The hospice agency shall have ultimate administrative control and responsibility of all services provided under the agency's license.
- Hospice agency shall ensure that the following services, which encompass the essential elements of hospice care, are provided:
 - Hospice nursing services,
 - Social work services,
 - Spiritual counseling services,
 - Patient family volunteer services, and

- Bereavement counseling shall be offered to family and other included in the bereavement plan for a period of 12 months following the death of a patient.
- All hospice nursing services shall be available 24 hours a day by or under supervision of a registered nurse.
- One registered nurse and one additional staff person shall be on duty at all times. This requirement represents the minimum staffing requirement; the hospice administration shall monitor the needs of the patients to ensure sufficient availability of nursing personnel at all times.
- Nurse aides employed to provide direct care shall be supervised by licensed nurses.
- The floor area in a private patient care room shall not be less than 100 square feet and the floor area for more than one bed shall not be less than 80 square feet per bed. The 80 and 100 square feet requirements shall be exclusive of closets, toilet rooms.
- The total space set aside for dining, recreation and other common uses shall not be less than 30 square feet per bed. This space is not to include physical or occupational therapy space.

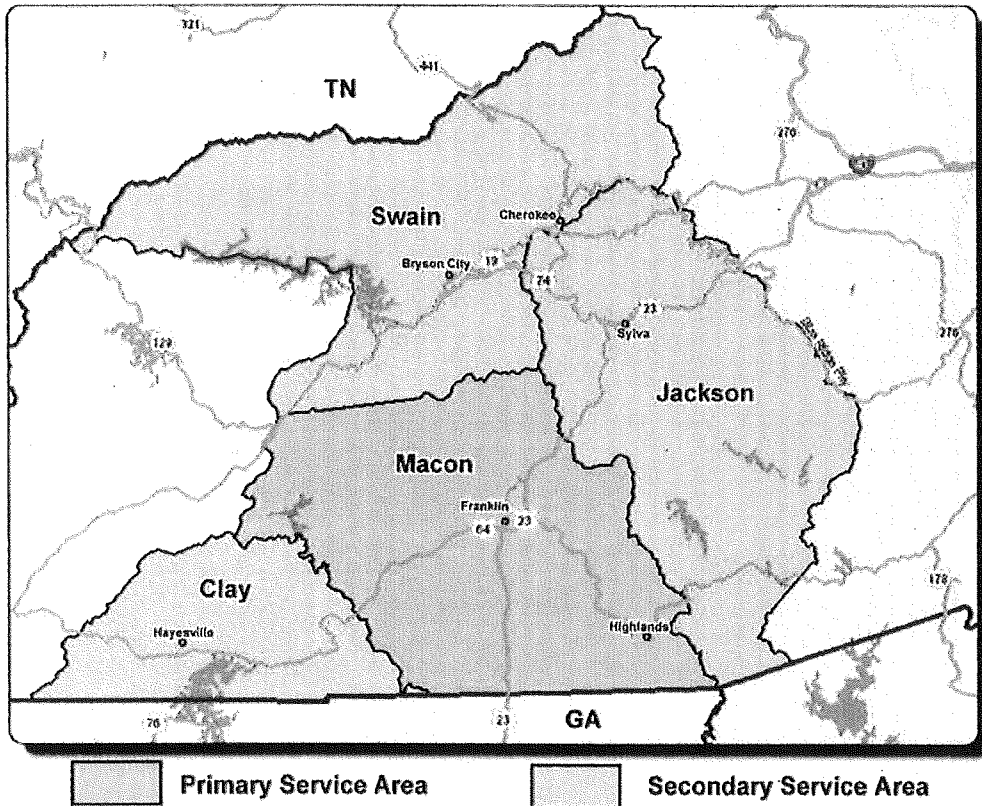
In addition to licensing requirements, the development of hospice facilities is regulated by the North Carolina Certificate of Need law, including the development of inpatient beds, residential beds, and hospice home care agencies. In addition, both hospice home care agencies and hospice inpatient beds are subject to the need determinations in the annual *State Medical Facilities Plan*, while in contrast residential hospice beds are not subject to a need determination. The *2008 State Medical Facilities Plan (SMFP)* included a need determination for six inpatient hospice beds in Macon County. This need determination was the result of an approved special need petition filed by Angel Home Health and Hospice requesting an adjusted need determination for Macon County to include six hospice inpatient beds. Application of the standard methodology for projecting hospice inpatient bed need in the *2008 SMFP* resulted in a deficit of four beds in Macon County; a deficit of six beds is required to trigger a need determination in any given county. However, Angel successfully argued in its petition that Macon County, when combined with contiguous counties in the western part of the state, could support at least six inpatient hospice beds. The State Health Coordinating Council approved Angel's petition and as a result the *2008 SMFP* included an adjusted need determination of six

inpatient hospice beds in Macon County. A need determination does not guarantee that the CON section will determine that any single applicant, including Angel, has a demonstrated need for six hospice inpatient beds. Therefore, Angel Home Health and Hospice in a CON application must reasonably demonstrate the need for the number of beds it proposes and its ability to fill them.

Market Area Definition

The market area for the proposed hospice facility consists of Macon County as the primary service area and Clay, Jackson, and Swain counties as the secondary service area.

Market Area for Proposed Facility



Market Area Demographics

- The population for Macon County is estimated to be 32,859 in 2007 and is projected to grow 6.6 percent to 35,041 in 2012. The total estimated population for the market area in 2007 is 92,144 and is projected to grow by 5.7 percent to 97,440 in 2012. Please see Exhibit 1 for complete demographic analysis.
- Since hospice is designed to provide end-of-life care, the majority of hospice patients are typically age 65 and older. Specifically, data from The Carolinas Center for Hospice and End of Life Care indicates that in 2006 (the most recent data publicly available), 80 percent of North Carolina hospice patients were 65 and older, 61 percent were 75 and older, and admitted patients over the age of 85 accounted for 30 percent of total admissions for the year. Further, this population cohort represents a significant portion of statewide deaths; in 2006, 76 percent of North Carolina deaths were among those over the age of 65. Thus, this population cohort represents the most significant demographic for the proposed hospice facility.
- Over the next five years in the market area, which includes Macon, Clay, Jackson, and Swain counties, the population over the age of 65 is projected to grow by 15.2 percent from 17,134 in 2007 to 19,734 in 2012. Current (2007) estimates indicate that this population cohort represents 18.6 percent of the market area population and, by 2012, will account for 20.3 percent of the market area population.²
- As discussed in further detail in the demand analysis, the majority of residential hospice patients are age 75 and older, as members of this population are more likely to live alone or live with someone who is not capable of being a primary caregiver. Data from The Carolinas Center for Hospice and End of Life Care indicates that in 2006, 61 percent of North Carolina hospice patients were 75 and older.

² 2007 Claritas, Inc. Population by Age and Sex Trend.

- Among all patients admitted for hospice services, cancer patients represent the single highest diagnosis. According to 2006 data from The Carolinas Center for Hospice and End of Life Care, 43.9 percent of all North Carolina hospice patients suffered from some form of cancer. Currently, cancer is the leading cause of death in North Carolina and the second leading cause of death in the United States. At the present time, cancer is the second leading cause of death in North Carolina among persons age 65 and over, after heart disease. It is estimated that four of every ten North Carolinians will develop cancer at some point in their lives.³ The following table illustrates cancer statistics in the service area for the proposed hospice facility, illustrating current cancer cases and cancer related deaths.

2006 Service Area Cancer Estimates

| <i>Cases per 100,000</i> | <i>Deaths per 100,000</i> | <i>Service Area Population[^]</i> | <i>Service Area Cases</i> | <i>Service Area Deaths</i> |
|--------------------------|---------------------------|--|---------------------------|----------------------------|
| 474.3 | 216.7 | 97,440 | 462 | 211 |

Source: North Carolina Cancer Profiles 2007; NC Vital Statistics 2006, Vol. 2; 2007 Claritas Inc. Population by Age and Sex Trend.

[^] Includes Macon, Clay, Jackson, and Swain counties

In 2006, approximately 65 percent of these cancer deaths were served by hospice.⁴ In highly penetrated hospice markets, as many as 80 percent of cancer deaths are served by hospice.

Competitive Analysis

As part of the market assessment, HPS conducted a competitive analysis, the purpose of which is to gain an understanding of Angel's competitive position vis-à-vis other hospice providers in the counties it serves. Thus, this section includes an analysis of market share, hospice use rate, and market penetration (percentage of total deaths served by hospice). The market share analysis provides Angel Home Health and Hospice's market share in the Macon, Swain, Clay and Jackson counties.

³ North Carolina Cancer Profiles 2007.

⁴ Based on Angel's diagnosis mix in 2006 applied to total 2006 hospice deaths in the market area.

Market Share

- **Macon County**

The market share analysis indicates that Angel's market share in its home county has declined since 2004. Specifically, Angel's Macon County share was 75 percent (patients) and 87 percent (days of care) in 2004, and dropped to 72 percent (patients) and 70 percent (days of care) in 2006. However, as the table below illustrates, this decline in market share has occurred because Angel's growth in the actual number of patients and patient days served has not kept pace with the total growth of patients and patient days in Macon County.

Macon County Hospice Utilization and Angel Share

| <i>Year</i> | <i>Angel Patients</i> | <i>Total Macon Patients</i> | <i>Angel Market Share of Patients</i> | <i>Angel Days of Care</i> | <i>Total Macon Days of Care</i> | <i>Angel Market Share of Days of Care</i> |
|--------------|-----------------------|-----------------------------|---------------------------------------|---------------------------|---------------------------------|---|
| 2004 | 88 | 117 | 75% | 7,307 | 8,355 | 87% |
| 2005 | 108 | 149 | 72% | 7,856 | 9,368 | 84% |
| 2006 | 118 | 164 | 72% | 9,057 | 12,922 | 70% |
| CAGR* | 16% | 18% | N/A | 11% | 24% | N/A |

Source: The Carolinas Center for Hospice and End of Life Care

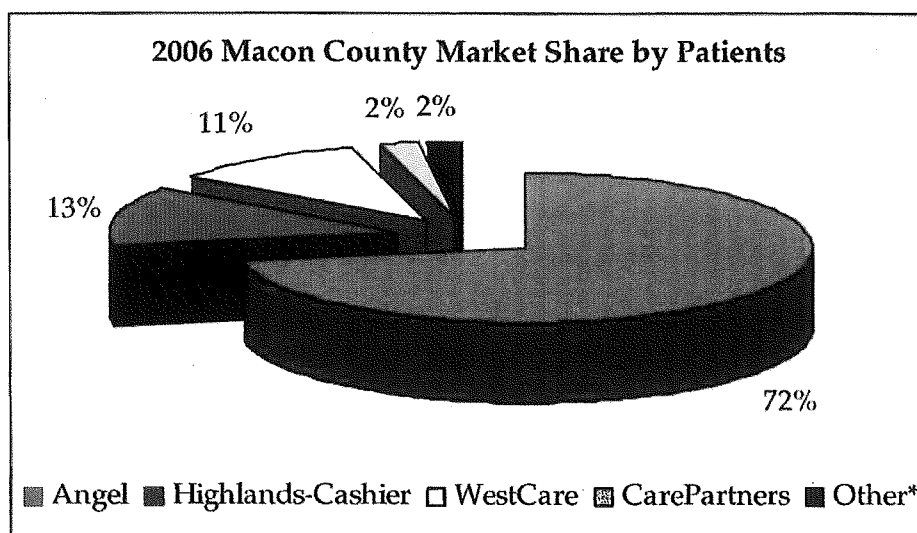
*CAGR or compound annual growth rate.

The growth in total patient days in Macon County has been driven by 77 percent annual growth in days of care provided to nursing facility patients, as demonstrate in the table below.

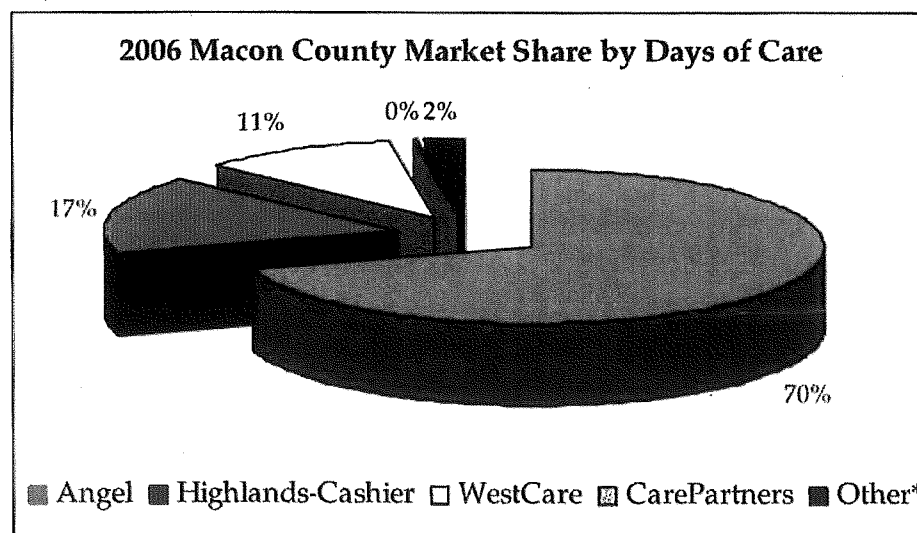
| <i>Year</i> | <i>Days of Care of Nursing Facility Patients</i> | <i>Total Macon Days of Care</i> | <i>Nursing Facility Days as Share of Total Macon Days of Care</i> |
|--------------|--|---------------------------------|---|
| 2004 | 985 | 8,355 | 12% |
| 2005 | 1,045 | 9,368 | 11% |
| 2006 | 3,100 | 12,922 | 27% |
| CAGR* | 77% | 24% | N/A |

Source: The Carolinas Center for Hospice and End of Life Care

The decline in market share is also attributable to growth by other hospice agencies that serve patients from Macon County. Specifically, Highlands-Cashier Hospice, also located in Macon County, and WestCare Home Health and Hospice Services, located in Jackson County, rank as the second and third largest providers of hospice services in Macon County. The charts below demonstrate current market share, measured both by days of care and patients, for hospice providers serving Macon County.



*Other includes Continuum Hospice and Good Shepherd Hospice.



*Other includes Continuum Hospice and Good Shepherd Hospice.

- Swain County

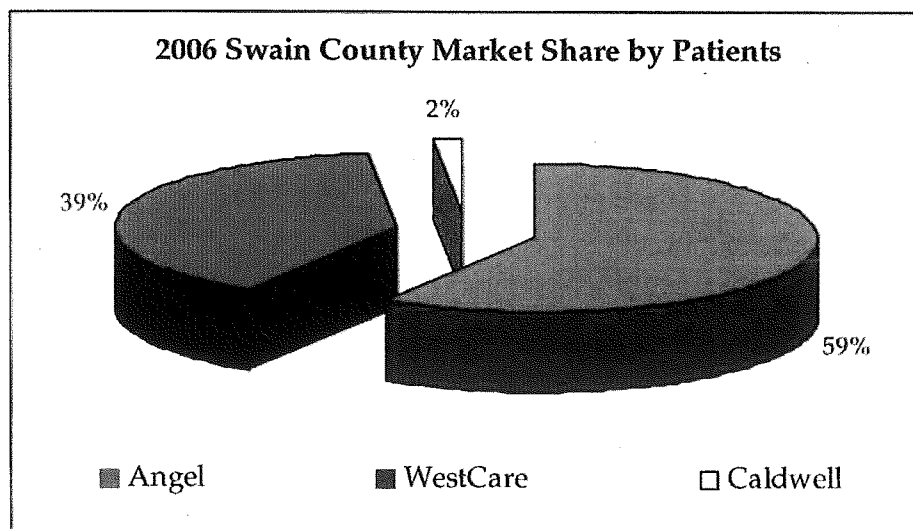
In contrast to its performance in Macon County, Angel Home Health and Hospice market share for days of care has increased in Swain County since 2004. However, Angel's share of patients has declined slightly over that same time period despite an increase in the actual number of patients served. Swain County has experienced growth in patients and days of care beyond that of Macon County, as shown above.

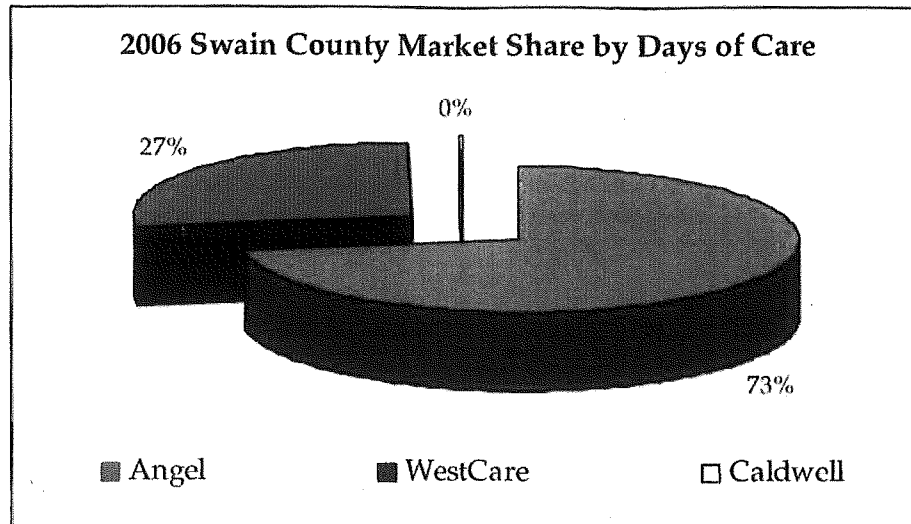
Swain County Hospice Utilization and Angel Share

| Year | Angel Patients | Total Swain Patients | Angel Market Share of Patients | Angel Days of Care | Total Swain Days of Care | Angel Market Share of Days of Care |
|-------------|----------------|----------------------|--------------------------------|--------------------|--------------------------|------------------------------------|
| 2004 | 24 | 39 | 62% | 1,422 | 2,192 | 65% |
| 2005 | 28 | 44 | 64% | 2,080 | 3,362 | 62% |
| 2006 | 36 | 61 | 59% | 3,700 | 5,094 | 73% |
| CAGR | 22% | 25% | N/A | 61% | 52% | N/A |

Source: The Carolinas Center for Hospice and End of Life Care

Angel Home Health and Hospice is the leading provider of services in Swain County with the vast remainder of patients receiving care from WestCare Home Health and Hospice Services, located in Jackson County. The charts below demonstrate current market share, measured both by days of care and patients, for hospice providers serving Swain County.





- Jackson County

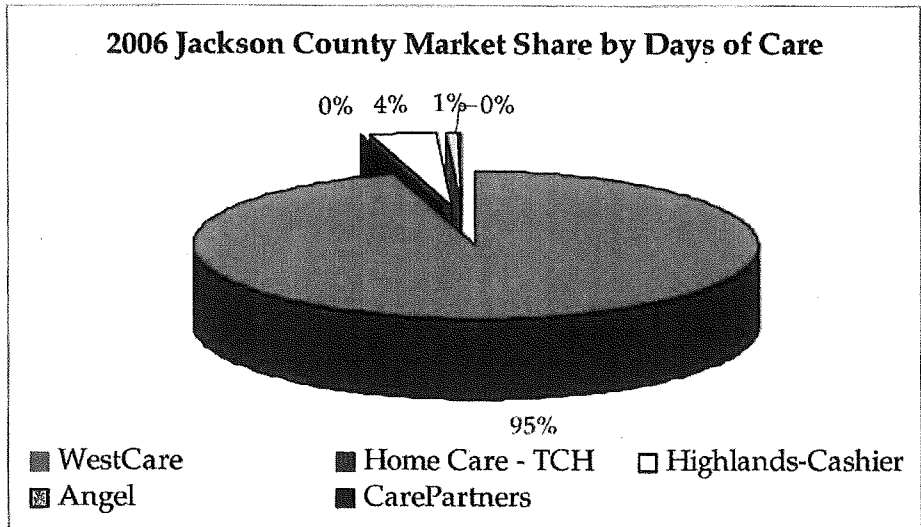
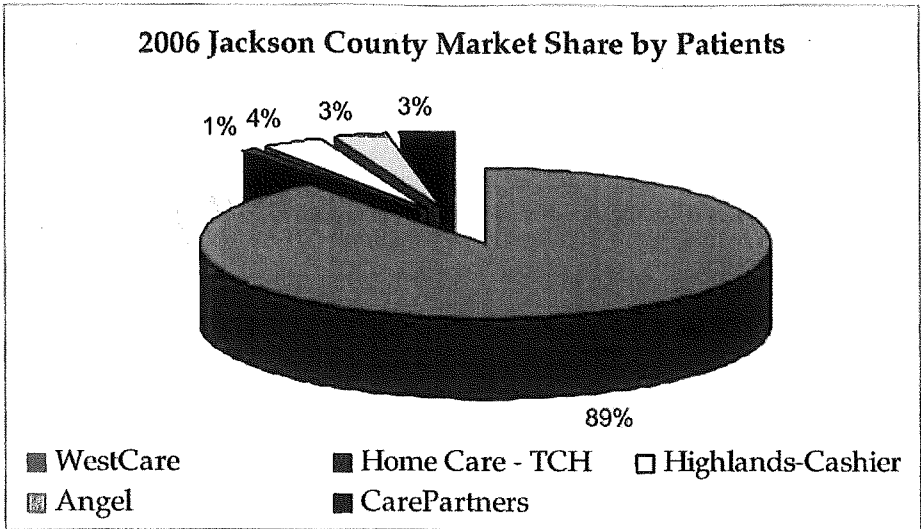
Historically, Angel has achieved three percent market share of patients in Jackson County and its share of days of care has fluctuated between one and ten percent. Jackson County has experienced growth in patients and days of care, as demonstrated in the chart below.

Jackson County Hospice Utilization and Angel Share

| Year | Angel Patients | Total Jackson Patients | Angel Market Share of Patients | Angel Days of Care | Total Jackson Days of Care | Angel Market Share of Days of Care |
|-------------|----------------|------------------------|--------------------------------|--------------------|----------------------------|------------------------------------|
| 2004 | 4 | 120 | 3% | 93 | 5,498 | 2% |
| 2005 | 3 | 113 | 3% | 509 | 5,219 | 10% |
| 2006 | 4 | 132 | 3% | 57 | 8,959 | 1% |
| CAGR | 0% | 5% | N/A | -22% | 28% | N/A |

Source: The Carolinas Center for Hospice and End of Life Care

WestCare Home Health and Hospice Services, located in Jackson County, has achieved 89 percent or greater market share of patients and days of care since 2004. The charts below demonstrate current market share, measured by days of care and patients, for hospice providers serving Jackson County.



- Clay County

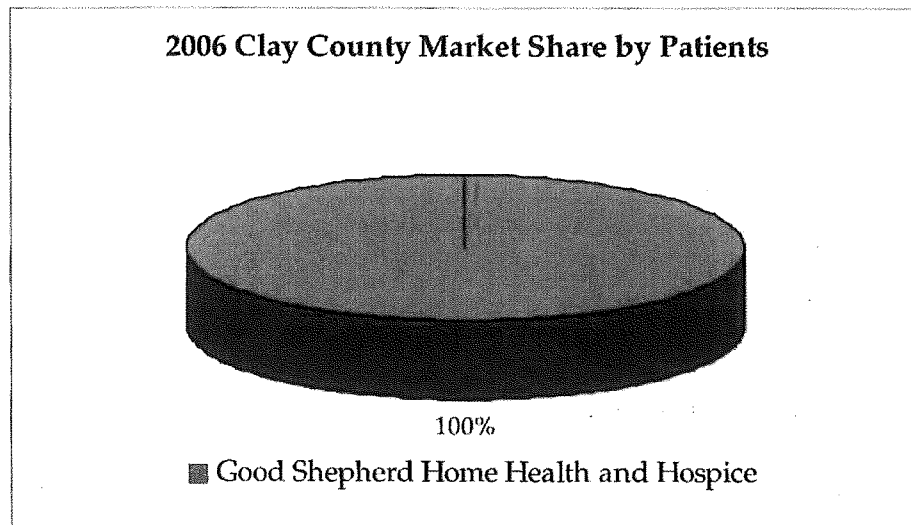
Angel Home Health and Hospice currently provides no hospice services to patients in Clay County. Clay County has experienced growth in patients, but a decline in patient days.

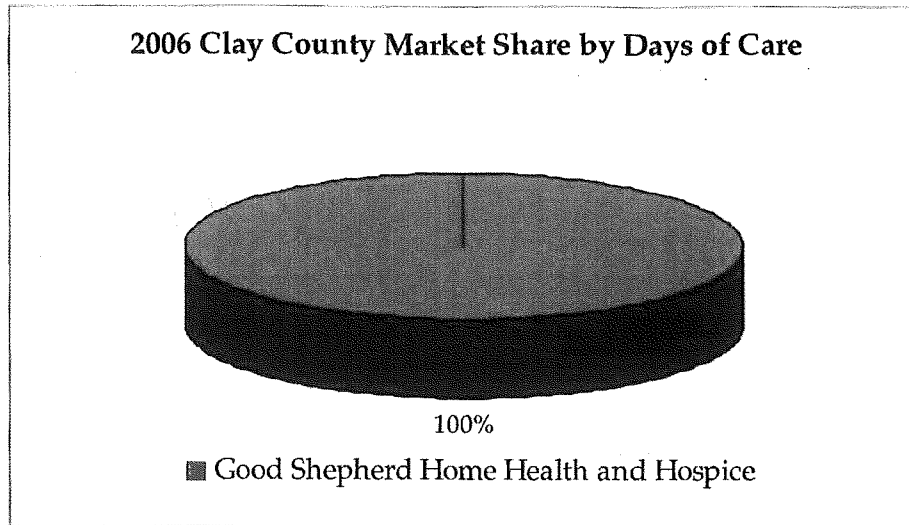
Clay County Hospice Utilization and Angel Share

| <i>Year</i> | <i>Angel Patients</i> | <i>Total Clay Patients</i> | <i>Angel Market Share of Patients</i> | <i>Angel Days of Care</i> | <i>Total Clay Days of Care</i> | <i>Angel Market Share of Days of Care</i> |
|-------------|-----------------------|----------------------------|---------------------------------------|---------------------------|--------------------------------|---|
| 2004 | 0 | 15 | 0% | 0 | 1,415 | 0% |
| 2005 | 0 | 23 | 0% | 0 | 3,285 | 0% |
| 2006 | 0 | 27 | 0% | 0 | 757 | 0% |
| CAGR | 0% | 34% | N/A | 0% | -27% | N/A |

Source: The Carolinas Center for Hospice and End of Life Care

Good Shepherd Home Health and Hospice, which is located in Clay County, provided all hospice services in 2006, as demonstrated in the charts below.





Market Penetration and Use Rate Analyses

Market penetration and use rate analyses are used to provide further insight into an agency’s position. Specifically, it is important to understand whether, in addition to population growth, there is opportunity for further growth of hospice services in the market – growth that may be advanced by the development of a hospice facility. The analyses consist of two components: use rate and market penetration. Use rate is calculated for hospice patients and days of care per 1,000 population. Market penetration examines the percentage of total deaths in a county that are served by hospice. In addition, experience in North Carolina indicates that counties with a freestanding hospice facility have a higher percentage of county-wide deaths served by hospice and have higher hospice use rates, on average, than counties without a freestanding facility. The following tables illustrate the use rates in the Angel Home Health and Hospice market area for 2002 through 2006.

Market Area Use Rates – Days of Care

| <i>Market Area</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> | <i>2005</i> | <i>2006</i> | <i>CAGR</i> |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Macon | 168.66 | 240.95 | 262.36 | 389.38 | 390.68 | 23.4% |
| Macon, Clay, Jackson, & Swain | 164.09 | 169.14 | 193.04 | 231.97 | 296.69 | 16.0% |

Source: The Carolinas Center for Hospice and End of Life Care

Market Area Use Rates – Patients

| <i>Market Area</i> | 2002 | 2003 | 2004 | 2005 | 2006 | CAGR* |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Macon | 2.84 | 3.57 | 3.67 | 4.60 | 4.96 | 14.9% |
| Macon, Clay, Jackson, & Swain | 2.58 | 3.07 | 3.22 | 3.59 | 4.11 | 12.3% |

Source: The Carolinas Center for Hospice and End of Life Care

As illustrated above, hospice use rates, as measured by days of care and patients, increased steadily in the market area between 2002 and 2006. It is notable that the hospice use rates in the four-county market area are lower than for Macon County alone. Therefore, it is likely that there is room for growth in hospice utilization in the secondary service area. However, the use rates in Macon County and in the four-county market area are higher than the average North Carolina use rates (not unexpectedly given the age of the population), which, in 2006, were 277.95 (days of care) and 3.27 (patients).

A market penetration analysis was conducted in parallel to the above use rate analysis. While use rates are based on total hospice utilization in a defined population, market penetration examines how many deaths within a county are served by hospice. While not all deaths are hospice appropriate (e.g. some do not involve terminal illness), an increase in market penetration provides an opportunity for an agency to serve a greater number of hospice patients by attracting new patients rather than just shifting market share from other providers. The following table provides an illustration of the market penetration rates in the market area, as well as the statewide rate. In addition, market penetration rates are presented for Transylvania County, which is comparable to Macon County in terms of population size and age, and Polk County, which has one of the highest penetration rates in North Carolina. The information contained in this table is based on 2006 data (the last year for which publicly reported statewide deaths are available) for North Carolina deaths and for North Carolina hospice utilization.

Market Penetration 2006

| <i>County</i> | <i>Total Deaths</i> | <i>Total Deaths Served by Hospice</i> | <i>Market Penetration</i> |
|----------------|---------------------|---------------------------------------|---------------------------|
| Macon | 420 | 126 | 30.0% |
| Clay | 120 | 12 | 18.3% |
| Jackson | 327 | 111 | 33.9% |
| Swain | 182 | 48 | 26.4% |
| Total 4-County | 1,049 | 297 | 28.3% |
| Transylvania | 309 | 113 | 36.6% |
| Polk | 272 | 139 | 51.1% |
| North Carolina | 74,419 | 22,653 | 30.4% |

Source: The Carolinas Center for Hospice and End of Life Care; The North Carolina State Center for Health Statistics

As the above table illustrates, the market penetration rates in the four counties that comprise Angel Home Health and Hospice's market area vary compared to the statewide market penetration rate. However, the market penetration rates of Transylvania and Polk counties suggest that with a focus on increasing hospice utilization, Angel Home Health and Hospice could experience a growth in volume even with no change in its current market share. Experience in North Carolina indicates that counties with freestanding hospice facilities, such as the one proposed, tend to have, on average, higher market penetration rates. Specifically, the mean market penetration rate for North Carolina is 30.4 percent, compared to 36.3 percent for counties with freestanding hospice facilities. The following table provides an illustration of the potential volume of deaths served by hospice if Macon County utilization increases to the market penetration rate demonstrated by Transylvania County, a county of similar size and demographics.

Market Penetration Increase Analysis - 2006

| <i>County</i> | <i>Total Deaths</i> | <i>Market Penetration Rate</i> | <i>Total Deaths Served by Hospice</i> |
|---------------|---------------------|--------------------------------|---------------------------------------|
| Macon | 420 | 36.6% | 154 |

Source: The Carolinas Center for Hospice and End of Life Care; The North Carolina State Center for Health Statistics

As illustrated above, increasing the market penetration rate in Macon County increases the total deaths served by hospice in the market area from 126 to 154. At its 2006 market share for deaths served in Macon County, Angel Home Health and Hospice's Macon County volume would increase from 95 to 116. As a result, HPS explored the effect of this market penetration rate increase on future utilization in the demand analysis section below.

Demand Analysis⁵

Demand for a hospice facility was determined based on two levels of care: inpatient and respite/residential care. Although reimbursement is provided for three levels of care, inpatient, respite, and residential, there are only two levels of licensed beds. Respite care occurs in either an inpatient or residential bed. In addition, demand was analyzed for five different market definitions:

1. Market demand for Macon County only
2. Market demand for the four-county market area
3. Market demand based on Angel Home Health and Hospice utilization in Macon County only
4. Market demand based on total Angel Home Health and Hospice utilization
5. Market demand based on Angel Home Health and Hospice utilization in Macon County and 50 percent capture rate in defined radius of Clay, Jackson, and Swain counties

Demand for inpatient care was evaluated based on the North Carolina inpatient hospice methodology which is based on the actual ratio of inpatient days to total days of care experienced by North Carolina-based hospice inpatient facility providers. Demand for residential care is based on total hospice deaths, the percent of hospice appropriate patients age 75 and older who do not have a capable caregiver at home, and the average length of stay for residential hospice patients. Please see Exhibit 2 for the complete methodologies and assumptions used for the projections.

⁵ Source data includes FY 2007 hospice utilization obtained from Data Supplements to 2008 Hospice License Renewal Applications

HPS conducted each demand analysis under two separate scenarios. The first, "conservative" scenario projects the growth in days of care based on the projected growth (2007 to 2012) in the age 65 and older population cohort in the market area (14.2 percent growth over a five year period in Macon County and 15.2 percent growth over a five year period for the four-county area) and assumes that market penetration rates for the market area remain the same from 2006 to 2012. The second, "aggressive" scenario also projects the growth in days of care based on the projected growth (2007 to 2012) in the age 65 and older population cohort in the market area, but also assumes an increase in the Macon County market penetration rate of 6.6 percentage points, from 30.0 percent to 36.6 percent market penetration, which is equal to the Transylvania County market penetration rate. The penetration rates in Clay, Jackson, and Swain counties, when included in the market definition, however, were conservatively assumed to remain constant in this analysis. The following section is organized by market definition and scenario – illustrating the results for each scenario under each market definition.

Market Demand for Macon County Only

The market demand for Macon County only is based on the projected demand for hospice services by residents of Macon County, regardless of the agency to which they are initially admitted.

Conservative Scenario

The following table illustrates the results of the demand analysis assuming that penetration rates in the Macon County remain constant from 2006 to 2012.

2012 Total Projected Bed Need: Conservative

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 3.0 |
| Residential/Respite Demand | 3.9 |

As the above table illustrates, the conservative analysis indicates that Macon County can support a total of three inpatient hospice beds as well as four residential/respite beds.

Aggressive Scenario

The following table illustrates the results of the demand analysis assuming that the market penetration rate for Macon County increases to the Transylvania County market penetration rate.

2012 Total Projected Bed Need: Aggressive

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 3.6 |
| Residential/Respite Demand | 4.7 |

The demand analysis under the more aggressive scenario indicates that Macon County could potentially support four inpatient hospice beds as well as five residential/respite beds.

Market Demand for the Four-County Market Area

The market demand for the four-county market area is based on the projected demand for hospice services by residents of Macon, Clay, Jackson and Swain counties, regardless of the agency to which they are initially admitted.

Conservative Scenario

The following table illustrates the results of the demand analysis assuming that penetration rates in the market area remain constant from 2006 to 2012.

2012 Total Projected Bed Need: Conservative

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 7.5 |
| Residential/Respite Demand | 9.4 |

As the above table illustrates, the conservative analysis indicates that the four-county market area can support a total of eight inpatient hospice beds as well as nine residential/respite beds.

Aggressive Scenario

The following table illustrates the results of the demand analysis assuming that the market penetration rate for Macon County increases to the Transylvania County market penetration

rate and that the market penetration rates for Clay, Jackson, and Swain counties remain unchanged.

2012 Total Projected Bed Need: Aggressive

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 8.1 |
| Residential/Respite Demand | 10.2 |

The demand analysis under the more aggressive scenario indicates that the four-county market area could potentially support eight inpatient hospice beds as well as ten residential/respite beds.

Market Demand Based on Angel Home Health and Hospice Utilization in Macon County Only

The market demand for Angel Home Health and Hospice in Macon County projects demand only for patients of Angel that reside in Macon County.

Conservative Scenario

The following table illustrates the results of the demand analysis assuming that penetration rates in the market area remain constant from 2006 to 2012.

2012 Total Projected Bed Need: Conservative

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 2.2 |
| Residential/Respite Demand | 3.3 |

As the above table illustrates, the conservative analysis indicates that based on its hospice utilization in Macon County alone, Angel can support a total of two inpatient hospice beds as well as three residential/respite beds.

Aggressive Scenario

The following table illustrates the results of the demand analysis assuming that the market penetration rate for Macon County increases to the Transylvania County market penetration rate.

2012 Total Projected Bed Need: Aggressive

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 2.6 |
| Residential/Respite Demand | 3.9 |

The demand analysis under the more aggressive scenario indicates that based on its hospice utilization in Macon County alone, Angel could potentially support three inpatient hospice beds as well as four residential/respite beds.

Market Demand Based on Total Angel Home Health and Hospice Utilization

The market demand for total Angel Home Health and Hospice projects demand only for patients of Angel, regardless of the patient's county of origin.

Conservative Scenario

The following table illustrates the results of the demand analysis assuming that penetration rates in the market area remain constant from 2006 to 2012.

2012 Total Projected Bed Need: Conservative

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 3.4 |
| Residential/Respite Demand | 4.4 |

As the above table illustrates, the conservative analysis indicates that based on its total hospice utilization, Angel can support a total of three inpatient hospice beds as well as four residential/respite beds.

Aggressive Scenario

The following table illustrates the results of the demand analysis assuming that the market penetration rate for Macon County increases to the Transylvania County market penetration rate and that the market penetration rates for all other areas served by Angel Home Health and Hospice remain unchanged.

2012 Total Projected Bed Need: Aggressive

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 3.9 |
| Residential/Respite Demand | 5.1 |

The demand analysis under the more aggressive scenario indicates that based on its total hospice utilization, Angel could potentially support four inpatient hospice beds as well as five residential/respite beds.

Market Demand Based on Angel Home Health and Hospice Utilization in Macon County and 50 Percent Capture Rate in Defined Radius of Clay, Jackson, and Swain Counties

The market demand for total Angel Home Health and Hospice and an assumed 50 percent capture rate is based on the total projected demand for Angel hospice services assuming Angel Home Health and Hospice maintains its existing share of Macon County and captures 50 percent of the potential inpatient and residential hospice demand in the remaining market defined by the population in Clay, Jackson, and Swain counties within 30 miles of Franklin, NC, the proposed location for the freestanding facility. The 30-mile radius was chosen based upon the results of the primary research.

Conservative Scenario

The following table illustrates the results of the demand analysis assuming that penetration rates in the market area remain constant from 2006 to 2012.

2012 Total Projected Bed Need: Conservative

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 4.2 |
| Residential/Respite Demand | 5.5 |

As the above table illustrates, the conservative analysis indicates that based on its historical hospice utilization in Macon County plus an assumed capture rate of 50 percent of the potential demand in Clay, Jackson, and Swain counties in the defined 30-mile radius, Angel can support a total of four inpatient hospice beds as well as six residential/respite beds.

Aggressive Scenario

The following table illustrates the results of the demand analysis assuming that the market penetration rate for Macon County increases to the Transylvania County market penetration rate and that the market penetration rates for all other areas served by Angel Home Health and Hospice remain unchanged.

2012 Total Projected Bed Need: Aggressive

| <i>Methodology</i> | <i>Bed Need</i> |
|----------------------------|-----------------|
| Inpatient Demand | 4.7 |
| Residential/Respite Demand | 6.1 |

The demand analysis under the more aggressive scenario indicates that based on its historical hospice utilization in Macon County plus an assumed capture rate of 50 percent of the potential demand in Clay, Jackson, and Swain counties in the defined 30-mile radius, could potentially support five inpatient hospice beds as well as five to six residential/respite beds.

Summary

The following table summarizes the results of the five demand analyses under each scenario.

**2012 Total Projected Bed Need for Five Market Definitions
under Conservative Scenario**

| <i>Methodology</i> | <i>Macon Only</i> | <i>Four County Total</i> | <i>Angel-Macon Only</i> | <i>Angel Total</i> | <i>Angel-Macon plus 50% Capture Rate</i> |
|-----------------------------|-------------------|--------------------------|-------------------------|--------------------|--|
| Inpatient Demand | 3.0 | 7.5 | 2.2 | 3.4 | 5.1 |
| Residential/Respite Demand | 3.9 | 9.4 | 3.3 | 4.4 | 6.1 |
| Total (not additive) | 7.0 | 17.0 | 5.0 | 7.0 | 11.0 |

**2012 Total Projected Bed Need for Five Market Definitions
under Aggressive Scenario**

| <i>Methodology</i> | <i>Macon Only</i> | <i>Four County Total</i> | <i>Angel-Macon Only</i> | <i>Angel Total</i> | <i>Angel-Macon plus 50% Capture Rate</i> |
|-----------------------------|-------------------|--------------------------|-------------------------|--------------------|--|
| Inpatient Demand | 3.6 | 8.1 | 2.6 | 3.9 | 4.7 |
| Residential/Respite Demand | 4.7 | 10.2 | 3.9 | 5.1 | 6.1 |
| Total (not additive) | 9.0 | 18.0 | 7.0 | 9.0 | 11.0 |

Based on the results of the demand analysis, HPS believes based on its utilization alone, Angel Home Health and Hospice could support four inpatient and five residential beds. With Angel's existing share of Macon County plus a capture rate of 50 percent of the potential inpatient and residential hospice demand in Clay, Jackson, and Swain counties within the defined 30-mile radius discussed above, Angel could support five inpatient and six residential beds under both the conservative and aggressive scenarios described above. In the alternative, and critical for CON approval, Angel could support six inpatient and six residential beds based on 100 percent capture rate of Macon County hospice inpatient/residential patients and 50 percent of the demand in Clay, Jackson, and Swain counties within the 30-mile radius.

MARKET FEASIBILITY RECOMMENDATIONS

Conclusions generated by the market feasibility study – prior to the development of the business plan - suggest that there exists support for at least seven hospice beds in Macon County or at least 17 hospice beds in the larger four-county market area based on conservative growth assumptions, or up to nine beds in Macon County or 18 beds in the four-county market area based on an increase in the market penetration rate in Macon County. Conclusions also suggest that Angel can support a hospice facility of at least seven beds based on its current utilization and conservative growth assumptions, or up to nine beds assuming an increase in the market penetration rate in Macon County. Further, based on its utilization of Macon County alone plus an assumed 50 percent capture rate of potential demand within a 30-mile radius in Clay, Jackson, and Swain counties, Angel could support a nine- to 11-bed facility. Finally, Angel could support a 12-bed facility if it assumed 100 percent capture rate of Macon County hospice utilization and 50 percent capture rate of potential demand within a 30-mile radius in Clay, Jackson, and Swain counties. This scenario will be critical to the success of demonstrating Angel's need for and ability to fill six inpatient hospice beds in a certificate of need application. It should be noted that the development of inpatient beds in the proposed facility will be contingent upon and limited to a special need determination in the 2010 *State Medical Facilities Plan* for inpatient hospice beds in Macon County. Based on its knowledge of existing hospice facilities, HPS believes that a six-bed facility alone is unlikely to be financially feasible. A hospice facility with ten to twelve beds is typically ideal with regard to staffing and

operational efficiencies and overall financial viability; however, the mix of inpatient and residential beds must be considered given the lack of reimbursement sources for residential beds.

BUSINESS PLAN

The proposed business plan for the hospice facility is based on the conclusions of the market feasibility study, as well as the financial analyses that accompany this report.

Utilization Projections

- The market feasibility study recommends the development of a 10- to 12-bed hospice facility. Two alternatives for the size of facility are included in the financial analyses: a 10-bed facility and a 12-bed facility. Financial statements for both facility sizes are included in Exhibit 3.⁶
- Projected demand indicates that about 50 percent of the beds will be used for inpatient care while the other 50 percent will be used for respite and residential care.
- Of the 50 percent of beds used for respite/residential care, approximately 10 percent will be used for respite care; the remaining beds will be used for residential care.
- The facility's target occupancy rate is based on 85 percent; the conservative fill-up assumptions are 50 percent occupancy in year one, 65 percent occupancy in year two, and 85 percent occupancy by year three and thereafter. This fill-up rate and target occupancy is very conservative; in FY 2007, the median occupancy rate for hospice inpatient beds in North Carolina was 94 percent.

Staffing

Staffing for the proposed hospice facility is based on regulatory requirements, bed size, projected utilization by level of care, and the experience of existing hospice facilities. Projected staffing plans follow in the tables below. Note that the projected staffing shown below includes only incremental FTEs necessary to staff the proposed facility. Additional positions, including Medical Director, Social Worker, and Chaplain, can effectively be shared with the existing hospice home care operations.

⁶ For informational purposes, Exhibit 3 also includes financial statements for a 6-bed inpatient only hospice facility. Given that such a facility is impractical and not financially viable, this alternative is not discussed in the body of the business plan report.

Staffing Plan for 10-Bed Facility

| <i>Position</i> | <i>Year 1</i> | <i>Year 2</i> | <i>Year 3</i> |
|--------------------------|---------------|---------------|---------------|
| Hospice Director | 0.5 | 0.5 | 0.5 |
| Patient Care Coordinator | 1.0 | 1.0 | 1.0 |
| RN | 4.6 | 4.6 | 6.2 |
| Aides | 4.6 | 4.6 | 4.6 |
| Dietary/Laundry | 1.4 | 1.4 | 1.4 |
| Housekeeping/Janitor | 1.5 | 1.5 | 1.5 |
| Clerical | 1.0 | 1.0 | 1.0 |
| Total | 14.6 | 14.6 | 16.2 |

Staffing Plan for 12-Bed Facility

| <i>Position</i> | | | |
|--------------------------|------|------|------|
| Hospice Director | 0.5 | 0.5 | 0.5 |
| Patient Care Coordinator | 1.0 | 1.0 | 1.0 |
| RN | 4.6 | 4.6 | 7.7 |
| Aides | 4.6 | 4.6 | 6.2 |
| Dietary/Laundry | 1.4 | 1.4 | 1.4 |
| Housekeeping/Janitor | 1.5 | 1.5 | 1.5 |
| Clerical | 1.0 | 1.0 | 1.0 |
| Total | 14.6 | 14.6 | 19.2 |

Project Timeline

The business plan assumes an operational date of October 1, 2010.

Sources and Uses of Funds

The development costs for the proposed facility are based on the experience of other hospice providers and adjusted for current market conditions. These estimates may or may not represent the actual experience for the facility, depending on timing of development and other site specific parameters that are not known at this time.⁷ It is projected that 100 percent of capital costs will be funded through a capital campaign. Based on the experience of other providers, it is expected that approximately 40 percent of the total capital costs will be received in the first year of the capital campaign, an additional 40 percent in the second year, and the remaining 20 percent in the third year of the campaign. Please see the financial statements accompanying this report for a complete projection of sources and uses of funds.

Projected development costs include:

| <i>Component</i> | <i>Estimated Cost</i> | |
|-------------------------|-----------------------|---------------|
| | <i>10-Bed</i> | <i>12-Bed</i> |
| Land | \$280,000 | \$280,000 |
| Site Preparation Costs | \$375,000 | \$375,000 |
| Construction Costs | \$2,580,000 | \$3,096,000 |
| Furniture and Equipment | \$258,000 | \$309,600 |
| Architect Fees | \$206,400 | \$247,680 |
| Contingency Fees | \$258,000 | \$309,600 |
| Total | \$3,957,400 | \$4,617,880 |

⁷ HPS is aware that the Foundation has identified a potential site with an existing building that may be suitable for renovation to house the proposed hospice facility. However, for purposes of the feasibility study and business plan, HPS has assumed the most conservative scenario to include the purchase of land and construction of a new facility.

Financial Statements⁸

The business plan includes projected financial statements for both a 10-bed facility and a 12-bed facility. Each set is based upon the utilization assumptions outlined in the business plan and based on the market feasibility study. Results of each set of financial statements are summarized below.

Alternative One: 10-Bed Facility

Financial projections based on a 10-bed facility show a positive net income for the facility by the third year of operation and positive cash flow for the facility by the second year of operation, which is reasonable based on the size of the facility and the expected mix of inpatient and residential care.

Financial Summary for 10-Bed Facility

| | <i>Year 1</i> | <i>Year 2</i> | <i>Year 3</i> |
|------------|---------------|---------------|---------------|
| Net Income | (\$300,178) | (\$115,113) | \$36,892 |
| Cash | (\$148,791) | \$36,274 | \$188,279 |

Alternative Two: 12-Bed Facility

Financial projections based on a 12-bed facility show a positive net income and positive cash flow for the facility by the second year of operation, which is reasonable based on the size of the facility and the expected mix of inpatient and residential care.

Financial Summary for 12-Bed Facility

| | <i>Year 1</i> | <i>Year 2</i> | <i>Year 3</i> |
|------------|---------------|---------------|---------------|
| Net Income | (\$210,566) | \$15,877 | \$66,870 |
| Cash | (\$33,074) | \$193,369 | \$244,361 |

⁸ The financials detailed in the body of this report and included in Exhibit 3 reflect incremental cost pro formas and include only the incremental revenue and expenses associated with developing the proposed project as part of the ongoing operations of Angel Hospice. At the request of Angel Medical Center, HPS also developed total cost pro formas, which are included in Exhibit 4.

Under each alternative, the facility's position is sufficiently strong to succeed financially. However, alternative two represents the most profitable option. Please see the financial statements accompanying this report for complete income statements associated with each alternative.

BUSINESS PLAN RECOMENDATIONS

The results of the business plan indicate that a 10-bed facility or a 12-bed facility would be financially feasible. While the 12-bed facility shows greater profitability, the demand analyses indicate that Angel must achieve 100 percent capture rate of Macon County utilization and 50 percent of the projected utilization in the defined 30-mile radius in the expanded four-county service area in order to support six inpatient beds. A more realistic scenario (and a more defensible argument in a certificate of need application⁹) is that Angel rely on its utilization in Macon County only in addition to achieving the 50 percent capture rate of the defined 30-mile radius, which suggests the development of no more than five inpatient beds under the aggressive scenario outlined in the market feasibility study. The aggressive scenario requires that the market penetration rate in Macon County increase to that of Transylvania County, from 30.0 percent to 36.6 percent. Without such an increase in market penetration (the conservative scenario), Angel could support five inpatient beds at best (assuming 100 percent capture rate of Macon County utilization and 50 percent capture rate of the 30-mile radius) or, more likely, only four inpatient hospice beds (based on Angel's Macon County utilization alone in addition to the 50 percent capture rate of the 30-mile radius). Given facility design and staffing, HPS

⁹ It should be noted that a successful petition and subsequent need determination in the *State Medical Facilities Plan* does not guarantee the approval of a certificate of need application. A certificate of need applicant must reasonably demonstrate to the Certificate of Need Section that a need identified in the *SMFP* does in fact exist and that it, the applicant, can meet that need. In a certificate of need application, Angel will be required to demonstrate to the State (1) that a need for exists for the number of beds proposed and (2) that the beds will be sufficiently utilized. In the 2006 and 2007 *SMFPs* combined, there were 26 different county need determinations for hospice inpatient beds (excluding the need determination for Macon County in the 2006 *SMFP* for which no one applied). The majority of the 26 certificate of need reviews were non-competitive, meaning that a single applicant applied. In 14 of the 26 reviews, an applicant was conditionally approved and awarded a certificate of need. In the remaining 12 reviews, all applicants were denied, despite the fact that a need determination existed in the *SMFP*. The majority of denials were primarily based on the State's finding the applicant's volume projections and related assumptions unreasonable and therefore an inadequate demonstration of need.

recommends the development of an even number of beds. Therefore, HPS recommends the pursuit of no greater than a 10-bed facility with five inpatient beds and five residential/respice beds.

**Exhibit 1:
Demographic Analysis**

Demographic Analysis

| County | 2007 Population | | |
|----------------------------|------------------|------------------|-----------------|
| | Total | 65+ | 65+ as % of Tot |
| Macon | 32,859 | 7,609 | 23.2% |
| Clay | 10,081 | 2,251 | 22.3% |
| Jackson | 35,955 | 5,101 | 14.2% |
| Swain | 13,249 | 2,173 | 16.4% |
| Total Four Counties | 92,144 | 17,134 | 18.6% |
| Polk | 19,365 | 4,531 | 23.4% |
| Transylvania | 29,786 | 7,020 | 23.6% |
| NC Total | 8,875,404 | 1,102,807 | 12.4% |

| County | 2012 Population | | |
|----------------------------|------------------|------------------|-------------------|
| | Total | 65+ | 65+ as % of Total |
| Macon | 35,041 | 8,689 | 24.8% |
| Clay | 11,028 | 2,655 | 24.1% |
| Jackson | 37,904 | 5,960 | 15.7% |
| Swain | 13,467 | 2,430 | 18.0% |
| Total Four Counties | 97,440 | 19,734 | 20.3% |
| Polk | 20,097 | 5,054 | 25.1% |
| Transylvania | 30,168 | 7,620 | 25.3% |
| NC Total | 9,466,506 | 1,295,833 | 13.7% |

| County | 2007-2012 CAGR | | 2007-2012 Tot. Growth | |
|----------------------------|----------------|-------------|-----------------------|--------------|
| | Total | 65+ | Total | 65+ |
| Macon | 1.3% | 2.7% | 6.6% | 14.2% |
| Clay | 1.8% | 3.4% | 9.4% | 17.9% |
| Jackson | 1.1% | 3.2% | 5.4% | 16.8% |
| Swain | 0.3% | 2.3% | 1.6% | 11.8% |
| Total Four Counties | 1.1% | 2.9% | 5.7% | 15.2% |
| Polk | 0.7% | 2.2% | 3.8% | 11.5% |
| Transylvania | 0.3% | 1.7% | 1.3% | 8.5% |
| NC Total | 1.3% | 3.3% | 6.7% | 17.5% |

Source: 2007 Claritas Inc. Population by Age and Sex Trend

**Exhibit 2:
Demand Analyses**

Angel Home Health and Hospice - Hospice Feasibility Study

Macon Inpatient Demand - North Carolina Methodology

| Year | Total Days of Care | Estimated Inpatient Days | Projected Total Beds Required |
|--|--------------------|--------------------------|-------------------------------|
| 2007 | 10,294 | 824 | 2.7 |
| 2012 | 11,755 | 940 | 3.0 |
| 2012 with Macon penetration rate equal to Transylvania | 14,153 | 1,132 | 3.6 |

Source/Formula => Carolinas Center Col. B*8% C/365/85% Col.

Assumptions and Methodology

1. 2007 Total Days of Care are Macon Total Days of Hospice Care as reported in 2008 Hospice License Renewal Applications.
2. 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon County population age 65+ of 14.2%.
3. Inpatient days assumed to be 8% of total days of care based on the methodology assumptions of the 2008 State Medical Facilities Plan.
4. Projected total beds is calculated by dividing estimated inpatient days by 365 by 85 percent occupancy.

Angel Home Health and Hospice - Hospice Feasibility Study

Macon Residential Demand Analysis

| Year | Total Days of Care | | Total Deaths | % Age 75+ | % Without Caregiver | Patients Without Caregiver | Average Length of Stay | Residential Patient Days | | Number of Beds |
|--|--------------------|------|--------------|-----------|---------------------|----------------------------|------------------------|--------------------------|------|----------------|
| | 2007 | 2012 | | | | | | 2007 | 2012 | |
| 2007 | 10,294 | 131 | 64% | 26.4% | 22 | 48 | 1,070 | 3.5 | | |
| 2012 | 11,755 | 150 | 64% | 26.4% | 25 | 48 | 1,222 | 3.9 | | |
| 2012 with Macon penetration rate equal to Pennsylvania | | | | | | | | | | |
| | 14,153 | 180 | 64% | 26.4% | 31 | 48 | 1,472 | 4.7 | | |

Assumptions and Methodology

1. 2007 Total Days of Care are Macon Total Days of Hospice Care as reported in 2008 Hospice License Renewal Applications.
2. 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon population age 65+ of 14.2%.
3. Projected 2012 Total Deaths based on ratio of deaths to days of care based on 2007 data.
4. Percent over 75 is based on actual Angel Hospice experience in 2007.
5. Percent without caregiver is based on demographic data from Macon County (Claritas).
6. Patients without caregiver calculated by multiplying Total Deaths by percent over 75 by percent without caregiver.
7. ALOS is based on NC Hospice facility average for 2005 (based on data reported in the *Carolinas Center for Hospice and End of Life Care* (2005)).
8. Residential patient days calculated by multiplying the patients without caregiver by the average length of stay.
9. Total bed need calculated by dividing residential days by 365 by 85%.

Angel Home Health and Hospice - Hospice Feasibility Study

Macon/Jackson/Clay/Swain Inpatient Demand - North Carolina Methodology

| Year | Total Days of Care | Estimated | | Projected Total Beds Required |
|--|--------------------|----------------|----------------|-------------------------------|
| | | Inpatient Days | Inpatient Days | |
| Source/Formula => | Center | Col. B*8% | Col. C/365/85% | |
| 2007 | 25,215 | 2,017 | | 6.5 |
| 2012 | 29,041 | 2,323 | | 7.5 |
| 2012 with Macon penetration rate equal to Transylvania | 31,536 | 2,523 | | 8.1 |

Assumptions and Methodology

1. 2007 Total Days of Care are Macon/Jackson/Clay/Swain Total Days of Hospice Care as reported in 2008 Hospice License Renewal Applications.
2. 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon/Jackson/Clay/Swain population age 65+ of 15.2%.
3. Inpatient days assumed to be 8% of total days of care based on the methodology assumptions of the 2008 State Medical Facilities Plan.
4. Projected total beds is calculated by dividing estimated inpatient days by 365 by 85 percent occupancy.

Angel Home Health and Hospice - Hospice Feasibility Study

Macon/Jackson/Clay/Swain Residential Demand Analysis

| Year | Total Days of Care | Total Deaths | % Age 75+ | % Without Caregiver | Patients Without Caregiver | Average Length of Stay | Residential Patient Days | Number of Beds |
|--|--------------------|--------------|-----------|---------------------|----------------------------|------------------------|--------------------------|----------------|
| 2007 | 25,215 | 308 | 64% | 26.4% | 52 | 48 | 2,520 | 8.1 |
| 2012 | 29,041 | 355 | 64% | 26.4% | 60 | 48 | 2,902 | 9.4 |
| 2012 with Macon penetration rate equal to Transylvania | 31,536 | 386 | 64% | 26.4% | 66 | 48 | 3,152 | 10.2 |

Assumptions and Methodology

1. 2007 Total Days of Care are Macon/Jackson/Clay/Swain Total Days of Hospice Care as reported in 2008 Hospice License Renewal Applications.
2. 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon/Jackson/Clay/Swain population age 65+ of 15.2%.
3. Projected 2012 Total Deaths based on ratio of deaths to days of care based on 2007 data.
4. Percent over 75 is based on actual Angel Hospice experience in 2007.
5. Percent without caregiver is based on demographic data from Macon County (Claritas).
6. Patients without caregiver calculated by multiplying Total Deaths by percent over 75 by percent without caregiver.
7. ALOS is based on NC Hospice facility average for 2005 (based on data reported in the *Carolina Center for Hospice and End of Life Care* (2005)).
8. Residential patient days calculated by multiplying the patients without caregiver by the average length of stay.
9. Total bed need calculated by dividing residential days by 85%.

Angel Home Health and Hospice - Hospice Feasibility Study

Angel Inpatient Demand Macon County Only - North Carolina Methodology

| Year | Total Days of Care | Estimated Inpatient Days | Projected Total Beds Required |
|--|--------------------|--------------------------|-------------------------------|
| 2007 | 7,358 | 589 | 1.9 |
| 2012 | 8,402 | 672 | 2.2 |
| 2012 with Macon penetration rate equal to Transylvania | 10,116 | 809 | 2.6 |

Source/Formula => Carolinas Center Col. B*8% Col. C/365/85% Cal.

Assumptions and Methodology

1. 2007 Total Days of Care are Angel Hospice's Total Days of Care in Macon County as reported in 2008 Hospice License Renewal Applications for Macon, Graham, and Swain agencies.
2. 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon population age 65+ of 14.2%.
3. Inpatient days assumed to be 8% of total days of care based on the methodology assumptions of the 2008 State Medical Facilities Plan.
4. Projected total beds is calculated by dividing estimated inpatient days by 365 by 85 percent occupancy.

Angel Home Health and Hospice - Hospice Feasibility Study

Angel Residential Demand Analysis - Macon County Only

| Year | Total Days of Care | Total Deaths | % Age 75+ | % Without Caregiver | Patients Without Caregiver | Average Length of Stay | Residential Patient Days | Number of Beds |
|--|--------------------|--------------|-----------|---------------------|----------------------------|------------------------|--------------------------|----------------|
| 2007 | 7,358 | 109 | 64% | 26.4% | 19 | 48 | 891 | 2.9 |
| 2012 | 8,402 | 124 | 64% | 26.4% | 21 | 48 | 1,017 | 3.3 |
| 2012 with Macon penetration rate equal to Pennsylvania | 10,116 | 150 | 64% | 26.4% | 26 | 48 | 1,225 | 3.9 |

Assumptions and Methodology

1. 2007 Total Days of Care are Angel Hospice's Total Days of Care in Macon County as reported in 2008 Hospice License Renewal Applications for Macon, Graham, and Swain agencies.
2. 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon population age 65+ of 14.2%.
3. Projected 2012 Total Deaths based on ratio of deaths to days of care based on 2007 data.
4. Percent over 75 is based on actual Angel Hospice experience in 2007.
5. Percent without caregiver is based on demographic data from Macon County (Claritas).
6. Patients without caregiver calculated by multiplying Total Deaths by percent over 75 by percent without caregiver.
7. ALOS is based on NC Hospice facility average for 2005 (based on data reported in the *Carolinas Center for Hospice and End of Life Care (2005)*).
8. Residential patient days calculated by multiplying the patients without caregiver by the average length of stay.
9. Total bed need calculated by dividing residential days by 365 by 85%.

Angel Home Health and Hospice - Hospice Feasibility Study

Angel Inpatient Demand - North Carolina Methodology

| Year | Total Days of Care | Estimated Inpatient Days | Projected Total Beds Required |
|--|--------------------|--------------------------|-------------------------------|
| 2007 | 11,496 | 920 | 3.0 |
| 2012 | 13,128 | 1,050 | 3.4 |
| 2012 with Macon penetration rate equal to Transylvania | 15,127 | 1,210 | 3.9 |

Source/Formula => Carolinas Center Col. B*8% C/65/85% Col.

Assumptions and Methodology

1. 2007 Total Days of Care are Angel Hospice's Total Days of Care as reported in 2008 Hospice License Renewal Applications for Macon, Graham, and Swain agencies.
2. 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon population age 65+ of 14.2%.
3. Inpatient days assumed to be 8% of total days of care based on the methodology assumptions of the 2008 State Medical Facilities Plan.
4. Projected total beds is calculated by dividing estimated inpatient days by 85 percent occupancy.

Angel Home Health and Hospice - Hospice Feasibility Study

Angel Residential Demand Analysis

| Year | Total Days of Care | Total Deaths | % Age 75+ Caregiver | % Without Caregiver | Patients Without Caregiver | Average Length of Stay | Residential Patient Days | Number of Beds |
|--|--------------------|--------------|---------------------|---------------------|----------------------------|------------------------|--------------------------|----------------|
| 2007 | 11,496 | 146 | 64% | 26.4% | 25 | 48 | 1,193 | 3.8 |
| 2012 | 13,128 | 167 | 64% | 26.4% | 28 | 48 | 1,362 | 4.4 |
| 2012 with Macon penetration rate equal to Transylvania | 15,127 | 192 | 64% | 26.4% | 33 | 48 | 1,570 | 5.1 |

Assumptions and Methodology

1. 2007 Total Days of Care are Angel Hospice's Total Days of Care as reported in 2008 Hospice License Renewal Applications for Macon, Graham, and Swain agencies.
2. 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon population age 65+ of 14.2%.
3. Projected 2012 Total Deaths based on ratio of deaths to days of care based on 2007 data..
4. Percent over 75 is based on actual Angel Hospice experience in 2007.
5. Percent without caregiver is based on demographic data from Macon County (Claritas).
6. Patients without caregiver calculated by multiplying Total Deaths by percent over 75 by percent without caregiver.
7. ALOS is based on NC Hospice facility average for 2005 (based on data reported in the *Carolinas Center for Hospice and End of Life Care (2005)*).
8. Residential patient days calculated by multiplying the patients without caregiver by the average length of stay.
9. Total bed need calculated by dividing residential days by 365 by 85%.

Angel Home Health and Hospice - Hospice Feasibility Study

Angel Inpatient Demand based on Existing Share of Macon and 50 Percent Capture Rate in 30-Mile Radius of Clay/Jackson/Swain - North Carolina Methodology

| Year | Total Days of Care | Estimated Inpatient Days | Projected Total Beds Required |
|------|--------------------|--------------------------|-------------------------------|
| 2007 | 11,496 | 920 | 3.0 |
| 2012 | 16,333 | 1,307 | 4.2 |

Source/Formula => Carolinas Center Col. B*8% Col. C/365/85% Col.

2012 with Macon penetration rate equal to Transylvania

1,467

4.7

Assumptions and Methodology

- 2007 Total Days of Care are Angel Hospice's Total Days of Care as reported in 2008 Hospice License Renewal Applications for Macon, Graham, and Swain agencies.
- 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon County population age 65+ applied to Angel Hospice Total Days of Care in Macon County plus projected growth rate (2007-2012) in Macon/Jackson/Clay/Swain population age 65+ applied to assumed 50% market share of population in SSA within 30 miles.
- Inpatient days assumed to be 8% of total days of care based on the methodology assumptions of the 2008 State Medical Facilities Plan.
- Projected total beds is calculated by dividing estimated inpatient days by 365 by 85 percent occupancy.

Angel Home Health and Hospice - Hospice Feasibility Study

Angel Residential Demand based on Existing Share of Macon and 50 Percent Capture Rate in 30-Mile Radius of Clay/Jackson/Swain

| Year | Total Days of Care | Total Deaths | % Age 75+ | % Without Caregiver | Patients Without Caregiver | Average Length of Stay | Residential Patient Days | Number of Beds |
|--|--------------------|--------------|-----------|---------------------|----------------------------|------------------------|--------------------------|----------------|
| 2006 | 11,496 | 146 | 64% | 26.4% | 25 | 48 | 1,193 | 3.8 |
| 2012 | 16,333 | 207 | 64% | 26.4% | 35 | 48 | 1,695 | 5.5 |
| 2012 with Macon penetration rate equal to Pennsylvania | 18,332 | 233 | 64% | 26.4% | 40 | 48 | 1,902 | 6.1 |

Assumptions and Methodology

- 2007 Total Days of Care are Macon/Jackson/Clay/Swain Total Days of Hospice Care as reported in 2008 Hospice License Renewal Applications.
- 2012 Total Days of Care based on projected growth rate (2007-2012) in Macon County population age 65+ applied to Angel Hospice Total Days of Care in Macon County plus projected growth rate (2007-2012) in Macon/Jackson/Clay/Swain population age 65+ applied to assumed 50% market share of population in SSA within 30 miles.
- Projected 2012 Total Deaths based on ratio of deaths to days of care based on 2007 data.
- Percent over 75 is based on actual Angel Hospice experience in 2007.
- Percent without caregiver is based on demographic data from Macon County (Claritas)
- Patients without caregiver calculated by multiplying Total Deaths by percent over 75 by percent without caregiver
- ALOS is based on NC Hospice facility average for 2005 (based on data reported in the *Carrollinas Center for Hospice and End of Life Care* (2005)).
- Residential patient days calculated by multiplying the patients without caregiver by the average length of stay
- Total bed need calculated by dividing residential days by 365 by 85%

Exhibit 3:
Financial Analysis: 6-Bed Facility

**Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only**

Projected Income Statement

| | FY 10 | | FY 11 | | FY 12 |
|----------------------|--------------|----|-----------|----|-----------|
| | <hr/> | | <hr/> | | |
| Gross Revenue | \$ 699,027 | \$ | 935,997 | \$ | 1,260,716 |
| Deductions | \$ 69,858 | \$ | 93,540 | \$ | 125,991 |
| Net Revenue | \$ 629,169 | \$ | 842,457 | \$ | 1,134,725 |
| Expenses: | | | | | |
| Salaries & Wages | \$ 565,743 | \$ | 582,715 | \$ | 687,176 |
| Benefits & Taxes | \$ 145,637 | \$ | 150,006 | \$ | 176,897 |
| Supplies & Services | \$ 81,396 | \$ | 108,989 | \$ | 146,800 |
| Professional Fees | \$ 656 | \$ | 878 | \$ | 1,183 |
| Food Services | \$ 9,229 | \$ | 12,357 | \$ | 16,644 |
| Facility Supplies | \$ 2,774 | \$ | 3,715 | \$ | 5,003 |
| Utilities | \$ 20,867 | \$ | 21,493 | \$ | 22,138 |
| Other Administrative | \$ 15,120 | \$ | 20,245 | \$ | 27,269 |
| Depreciation | \$ 89,126 | \$ | 89,126 | \$ | 89,126 |
| Amortization | \$ 10,238 | \$ | 10,238 | \$ | 10,238 |
| Interest | \$ - | \$ | - | \$ | - |
| Total Expenses | \$ 940,785 | \$ | 999,762 | \$ | 1,182,473 |
| Net Gain/Loss | \$ (311,616) | \$ | (157,305) | \$ | (47,748) |
| Net Cash Income | \$ (212,252) | \$ | (57,941) | \$ | 51,616 |

Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only

Revenue Worksheet

GROSS REVENUE

| Inpatient | FY 10 | FY 11 | FY 12 |
|------------------------|------------|------------|--------------|
| Private Insurance | \$ 17,781 | \$ 23,809 | \$ 32,069 |
| Medicare | \$ 645,443 | \$ 864,248 | \$ 1,164,075 |
| Medicaid | \$ 9,798 | \$ 13,119 | \$ 17,670 |
| Charity/Self-Pay/Other | \$ 26,005 | \$ 34,821 | \$ 46,901 |
| Subtotal | \$ 699,027 | \$ 935,997 | \$ 1,260,716 |

| Respite | FY 10 | FY 11 | FY 12 |
|------------------------|-------|-------|-------|
| Private Insurance | \$ - | \$ - | \$ - |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ - | \$ - | \$ - |

| Residential - Home Care | FY 10 | FY 11 | FY 12 |
|-------------------------|-------|-------|-------|
| Private Insurance | \$ - | \$ - | \$ - |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ - | \$ - | \$ - |

| Residential - Room and Board | FY 10 | FY 11 | FY 12 |
|------------------------------|-------|-------|-------|
| Private Insurance | \$ - | \$ - | \$ - |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ - | \$ - | \$ - |

| Total Gross Revenue | FY 10 | FY 11 | FY 12 |
|------------------------|------------|------------|--------------|
| Private Insurance | \$ 17,781 | \$ 23,809 | \$ 32,069 |
| Medicare | \$ 645,443 | \$ 864,248 | \$ 1,164,075 |
| Medicaid | \$ 9,798 | \$ 13,119 | \$ 17,670 |
| Charity/Self-Pay/Other | \$ 26,005 | \$ 34,821 | \$ 46,901 |
| Total | \$ 699,027 | \$ 935,997 | \$ 1,260,716 |

**Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only**

Revenue Worksheet

REVENUE DEDUCTIONS

| Inpatient | FY 10 | FY 11 | FY 12 |
|------------------------|-----------|-----------|------------|
| Private Insurance | \$ 7,924 | \$ 10,610 | \$ 14,291 |
| Medicare | \$ 35,391 | \$ 47,389 | \$ 63,830 |
| Medicaid | \$ 537 | \$ 719 | \$ 969 |
| Charity/Self-Pay/Other | \$ 26,005 | \$ 34,821 | \$ 46,901 |
| Subtotal | \$ 69,858 | \$ 93,540 | \$ 125,991 |

| Respite | FY 10 | FY 11 | FY 12 |
|------------------------|-------|-------|-------|
| Private Insurance | \$ - | \$ - | \$ - |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ - | \$ - | \$ - |

| Residential - Home Care | FY 10 | FY 11 | FY 12 |
|-------------------------|-------|-------|-------|
| Private Insurance | \$ - | \$ - | \$ - |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ - | \$ - | \$ - |

| Residential - Room and Board | FY 10 | FY 11 | FY 12 |
|------------------------------|-------|-------|-------|
| Private Insurance | \$ - | \$ - | \$ - |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ - | \$ - | \$ - |

| Total Revenue Deductions | FY 10 | FY 11 | FY 12 |
|--------------------------|-----------|-----------|------------|
| Private Insurance | \$ 7,924 | \$ 10,610 | \$ 14,291 |
| Medicare | \$ 35,391 | \$ 47,389 | \$ 63,830 |
| Medicaid | \$ 537 | \$ 719 | \$ 969 |
| Charity/Self-Pay/Other | \$ 26,005 | \$ 34,821 | \$ 46,901 |
| Total | \$ 69,858 | \$ 93,540 | \$ 125,991 |

**Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only**

Revenue Worksheet

NET REVENUE

| Inpatient | FY 10 | FY 11 | FY 12 |
|------------------------|------------|------------|--------------|
| Private Insurance | \$ 9,857 | \$ 13,199 | \$ 17,778 |
| Medicare | \$ 610,051 | \$ 816,858 | \$ 1,100,245 |
| Medicaid | \$ 9,260 | \$ 12,400 | \$ 16,701 |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ 629,169 | \$ 842,457 | \$ 1,134,725 |

| Respite | FY 10 | FY 11 | FY 12 |
|------------------------|-------|-------|-------|
| Private Insurance | \$ - | \$ - | \$ - |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ - | \$ - | \$ - |

| Residential - Home Care | FY 10 | FY 11 | FY 12 |
|-------------------------|-------|-------|-------|
| Private Insurance | \$ - | \$ - | \$ - |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ - | \$ - | \$ - |

| Residential - Room and Board | FY 10 | FY 11 | FY 12 |
|------------------------------|-------|-------|-------|
| Private Insurance | \$ - | \$ - | \$ - |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ - | \$ - | \$ - |

| Total Net Revenue | FY 10 | FY 11 | FY 12 |
|------------------------|------------|------------|--------------|
| Private Insurance | \$ 9,857 | \$ 13,199 | \$ 17,778 |
| Medicare | \$ 610,051 | \$ 816,858 | \$ 1,100,245 |
| Medicaid | \$ 9,260 | \$ 12,400 | \$ 16,701 |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Total | \$ 629,169 | \$ 842,457 | \$ 1,134,725 |

**Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only**

Sources and Uses

SOURCES OF FUNDS:

| | | |
|-------------------|----|-----------|
| Conventional Loan | \$ | - |
| Capital Campaign | \$ | 2,636,440 |
| Interest Earnings | | |

USES OF FUNDS:

| | | |
|-------------------------|----|-----------|
| Land | \$ | 280,000 |
| Site Preparation | \$ | 375,000 |
| Building Costs | \$ | 1,548,000 |
| Furniture and Equipment | \$ | 154,800 |
| Architect Fees | \$ | 123,840 |
| Contingency Fees | \$ | 154,800 |
| | \$ | 2,636,440 |

Assumptions:

| Receipt of Contributions | | | % Each Year |
|--------------------------|----|-----------|-------------|
| FY 10 | \$ | 1,054,576 | 40% |
| FY 11 | \$ | 1,054,576 | 40% |
| FY 12 | \$ | 527,288 | 20% |

Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only

Staffing Plan

| | FY 10 | FY 11 | FY 12 |
|--------------------------|-------|-------|-------|
| PROJECTED FTES | | | |
| Medical Director | 0.00 | 0.00 | 0.00 |
| Hospice Director | 0.50 | 0.50 | 0.50 |
| Patient Care Coordinator | 1.00 | 1.00 | 1.00 |
| RN | 4.62 | 4.62 | 6.15 |
| Aides | 4.62 | 4.62 | 4.62 |
| Social Worker | 0.00 | 0.00 | 0.00 |
| Chaplain | 0.00 | 0.00 | 0.00 |
| Dietary/Laundry | 1.40 | 1.40 | 1.40 |
| Housekeeping/Janitor | 1.00 | 1.00 | 1.00 |
| Clerical | 1.00 | 1.00 | 1.00 |
| Total | 14.1 | 14.1 | 15.7 |

Notes:

- Allocated from existing home care staff
- Per experience of other providers
- Per experience of other providers
- Per Staffing model
- Per Staffing model
- Allocated from existing home care staff
- Allocated from existing home care staff
- Per experience of other providers; 1 per day, 7 days to assist with distributing pre-prepared food
- Per experience of other providers
- Per experience of other providers

| | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------|------------|------------|------------|------------|
| PROJECTED SALARIES | | | | |
| Medical Director | \$ 186,287 | \$ 191,876 | \$ 197,632 | \$ 175,594 |
| Hospice Director | \$ 87,103 | \$ 89,716 | \$ 92,408 | \$ 82,103 |
| Patient Care Coordinator | \$ 82,882 | \$ 85,369 | \$ 87,930 | \$ 78,124 |
| RN | \$ 53,291 | \$ 54,890 | \$ 56,537 | \$ 50,232 |
| Aides | \$ 23,589 | \$ 24,297 | \$ 25,026 | \$ 22,235 |
| Social Worker | \$ 42,236 | \$ 43,503 | \$ 44,808 | \$ 39,811 |
| Chaplain | \$ 49,694 | \$ 51,185 | \$ 52,721 | \$ 46,842 |
| Dietary/Laundry | \$ 25,443 | \$ 26,206 | \$ 26,993 | \$ 23,983 |
| Housekeeping/Janitor | \$ 25,443 | \$ 26,206 | \$ 26,993 | \$ 23,983 |
| Clerical | \$ 23,413 | \$ 24,115 | \$ 24,839 | \$ 22,069 |
| Total | \$ 599,382 | \$ 617,363 | \$ 635,884 | \$ 564,975 |

- Client's actual FY08
- Per experience of other providers
- Per experience of other providers
- Client's actual FY08
- Client's actual FY08
- Client's actual FY08
- Client's actual FY08
- Per experience of other providers
- Per experience of other providers
- Client's actual FY08

Annual Inflation Factor 3%

| | FY 10 | FY 11 | FY 12 |
|--------------------------|------------|------------|------------|
| PROJECTED COSTS | | | |
| Medical Director | \$ - | \$ - | \$ - |
| Hospice Director | \$ 43,552 | \$ 44,858 | \$ 46,204 |
| Patient Care Coordinator | \$ 82,882 | \$ 85,369 | \$ 87,930 |
| RN | \$ 245,959 | \$ 253,338 | \$ 347,917 |
| Aides | \$ 108,874 | \$ 112,140 | \$ 115,504 |
| Social Worker | \$ - | \$ - | \$ - |
| Chaplain | \$ - | \$ - | \$ - |
| Dietary/Laundry | \$ 35,620 | \$ 36,689 | \$ 37,790 |
| Housekeeping/Janitor | \$ 25,443 | \$ 26,206 | \$ 26,993 |
| Clerical | \$ 23,413 | \$ 24,115 | \$ 24,839 |
| Total | \$ 565,743 | \$ 582,715 | \$ 687,176 |
| Average per FTE | \$ 40,036 | \$ 41,237 | \$ 43,855 |

Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only

Staffing Plan

Assumptions:

| Average Daily Census | FY 10 | FY 11 | FY 12 |
|----------------------|-------|-------|-------|
| Inpatient | 3.0 | 3.9 | 5.1 |
| Respite | 0.0 | 0.0 | 0.0 |
| Residential | 0.0 | 0.0 | 0.0 |
| Total ADC | 3.0 | 3.9 | 5.1 |

| Patients per RN | Patients per RN | | |
|-----------------|-----------------|-----------|-----------|
| | 1st Shift | 2nd Shift | 3rd Shift |
| Inpatient | 5 | 5 | 10 |
| Respite | 30 | 30 | 30 |
| Residential | 0 | 0 | 0 |

| Patients per Aide | Patients per Aide | | |
|-------------------|-------------------|-----------|-----------|
| | 1st Shift | 2nd Shift | 3rd Shift |
| Inpatient | 10 | 10 | 15 |
| Respite | 10 | 10 | 20 |
| Residential | 10 | 10 | 20 |

Staffing Plan FY 10

| | 1st Shift | 2nd Shift | 3rd Shift | Total/Day | Total FTEs | Total Paid FTEs |
|-------|-----------|-----------|-----------|-----------|------------|-----------------|
| RNs | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Aides | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Total | 2.0 | 2.0 | 2.0 | 6.0 | 8.4 | 9.2 |

Staffing Plan FY 11

| | 1st Shift | 2nd Shift | 3rd Shift | Total/Day | Total FTEs | Total Paid FTEs |
|-------|-----------|-----------|-----------|-----------|------------|-----------------|
| RNs | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Aides | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Total | 2.0 | 2.0 | 2.0 | 6.0 | 8.4 | 9.2 |

Staffing Plan FY 12

| | 1st Shift | 2nd Shift | 3rd Shift | Total/Day | Total FTEs | Total Paid FTEs |
|-------|-----------|-----------|-----------|-----------|------------|-----------------|
| RNs | 1.5 | 1.5 | 1.0 | 4.0 | 5.6 | 6.2 |
| Aides | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Total | 2.5 | 2.5 | 2.0 | 7.0 | 9.8 | 10.8 |

Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only

Assumptions

Notes to Assumptions

Projected Opening Date: 10/1/2010

Approximately 18 months from CON issuance

Number of Beds: 6

See Market Feasibility

| Patient Mix: | % of Days | # of Beds |
|--------------|-----------|-----------|
| Inpatient | 100% | 6.0 |
| Respite | 0% | 0.0 |
| Residential | 0% | 0.0 |

See Market Feasibility

| Estimated Occupancy Rate: | FY 10 | FY 11 | FY 12 |
|---------------------------|-------|-------|-------|
| | 50% | 65% | 85% |

Target of 85%, with 2-year fill-up rate

| Patient Days: | FY 10 | FY 11 | FY 12 |
|---------------|--------------|--------------|--------------|
| Inpatient | 1,095 | 1,424 | 1,862 |
| Respite | 0 | 0 | 0 |
| Residential | 0 | 0 | 0 |
| Total | 1,095 | 1,424 | 1,862 |

| Charges: | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------------|--------|--------|--------|--------|
| Inpatient | \$ 638 | \$ 658 | \$ 677 | \$ 602 |
| Respite | \$ 150 | \$ 154 | \$ 159 | \$ 141 |
| Residential - Home Care Portion | \$ 143 | \$ 147 | \$ 152 | \$ 135 |
| Residential - Room and Board | \$ 174 | \$ 179 | \$ 184 | \$ 164 |

Assumes Mcare reim is 94.5% of charge
Assumes Mcare reim is 94.5% of charge
Assumes Mcare reim is 94.5% of charge
Market Rate

Annual Charge Increase 3%

| Medicare Reimbursement: | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------------|--------|-----------|-----------|-----------|
| Inpatient | \$ 603 | \$ 621.48 | \$ 640.12 | \$ 568.74 |
| Respite | \$ 142 | \$ 145.78 | \$ 150.15 | \$ 133.41 |
| Residential - Home Care Portion | \$ 135 | \$ 139.13 | \$ 143.30 | \$ 127.32 |

Actual FY08 reimbursement rates

Annual Medicare Rate Increase 3%

| Medicaid Reimbursement: | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------------|--------|-----------|-----------|-----------|
| Inpatient | \$ 603 | \$ 621.48 | \$ 640.12 | \$ 568.74 |
| Respite | \$ 149 | \$ 153.45 | \$ 158.06 | \$ 140.43 |
| Residential - Home Care Portion | \$ 135 | \$ 139.30 | \$ 143.48 | \$ 127.48 |

Actual FY08 reimbursement rates

Annual Medicaid Rate Increase 3%

Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only

Notes to Assumptions

Assumptions

| Payor Mix: | IP - Acute | IP - Respite | Residential - Home Care | Residential - Room and Board | 2-yr average of Client's actual experience |
|------------------------|------------|--------------|-------------------------|------------------------------|--|
| Private Insurance | 2.5% | 2.5% | 2.5% | 2.5% | |
| Medicare | 92.3% | 92.3% | 92.3% | 0.0% | |
| Medicaid | 1.4% | 1.4% | 1.4% | 0.0% | |
| Self Pay/Charity/Other | 3.7% | 3.7% | 3.7% | 97.5% | |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | |

| Deductions as % of Revenue: | IP - Acute | IP - Respite | Residential - Home Care | Residential - Room and Board | Per experience of other providers |
|-----------------------------|------------|--------------|-------------------------|------------------------------|-----------------------------------|
| Private Insurance | 44.6% | 44.6% | 44.6% | 44.6% | |
| Medicare | 5.5% | 5.5% | 5.5% | 0.0% | |
| Medicaid | 24.7% | 24.7% | 24.7% | 0.0% | |
| Self Pay/Charity/Other | 100.0% | 100.0% | 100.0% | 80.0% | |

Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only

Assumptions

Notes to Assumptions

| Per Patient Day Costs | FY 10 | FY 11 | FY 12 |
|--|----------|----------|----------|
| Supplies & Services - IP Acute | \$ 74.33 | \$ 76.56 | \$ 78.86 |
| Supplies & Services - IP Respite & Residential | \$ 24.78 | \$ 25.52 | \$ 26.29 |
| Food Services | \$ 8.43 | \$ 8.68 | \$ 8.94 |
| Facility Supplies (Hkpg & Laundry) | \$ 2.53 | \$ 2.61 | \$ 2.69 |
| Other Administrative | \$ 13.81 | \$ 14.22 | \$ 14.65 |
| Professional fees | \$ 0.60 | \$ 0.62 | \$ 0.64 |

3x home care cost; per experience of other providers
Per experience of other providers
Per experience of other providers
Per experience of other providers
Per experience of other providers
Per client actual in 2007

| Utilities: | FY 10 | FY 11 | FY 12 |
|-------------|---------|---------|---------|
| Per SF cost | \$ 2.90 | \$ 2.99 | \$ 3.07 |

Per experience of other providers

Start-Up Costs:

| PROJECTED SALARIES | Annual Salary Cost | Prior to Opening | Total Cost |
|---------------------------------------|--------------------|------------------|------------|
| Hospice Director | \$ 43,552 | 2 months | 7,258.59 |
| Patient Care Coordinator | \$ 82,882 | 1 month | 6,906.85 |
| RN | \$ 245,959 | 2 weeks | \$ 9,460 |
| Aides | \$ 108,874 | 2 weeks | \$ 4,187 |
| Dietary/Laundry | \$ 35,620 | 2 weeks | \$ 1,370 |
| Housekeeping/Janitor | \$ 25,443 | 1 month | \$ 2,120 |
| | | | \$ 32,204 |
| Benefits & Taxes | | | \$ 8,290 |
| Supply Inventory (1 month) | | | \$ 6,783 |
| Professional Fees (6 months) | | | \$ 328 |
| Food Services Inventory (2 weeks) | | | \$ 355 |
| Facility Supplies Inventory (1 month) | | | \$ 231 |
| Utilities (1 month) | | | \$ 1,739 |
| Other Administrative (1 month) | | | \$ 1,260 |

Years Amortized 5

Annual Amortization \$ 10,238

Angel Home Health and Hospice
Hospice Facility
Six-Bed Inpatient Only

Assumptions

Notes to Assumptions

| | | | |
|--|--------------|----------------------|--|
| Capital Cost Assumptions: | | Annual Depreciation: | |
| Total Square Feet per Bed | 1,200 | | |
| Total Facility Square Feet | 7,200 | | |
| Construction Cost per SF | \$ 215 | | Per experience of other providers |
| Total Construction Costs | \$ 1,548,000 | \$ 38,700 | |
| Years Depreciated | 40 | | |
| Acreage | 8 | | |
| Cost per Acre | \$ 35,000 | | |
| Estimate of Land Cost | \$ 280,000 | | |
| Site Preparation | \$ 375,000 | \$ 12,500 | Per experience of other providers |
| Years Depreciated | 30 | | |
| Furniture and Equipment (10% of Construction Costs) | \$ 154,800 | \$ 30,960 | |
| Years Depreciated | 5 | | |
| Architect Fees (8% of Construction Costs) | \$ 123,840 | \$ 3,096 | |
| Years Depreciated | 40 | | |
| Contingency (10% of Construction Costs) | \$ 154,800 | \$ 3,870 | |
| Years Depreciated | 40 | \$ 89,126 | |
| Capital costs | \$ 2,636,440 | | |
| Benefits & Taxes as a % of Salaries | 26% | | Client's actual % from Hospice Operating Statement |
| Annual Inflation Factor | 3% | | |

Exhibit 3:
Financial Analysis: 10-Bed Facility

**Angel Home Health and Hospice
Hospice Facility
10-Bed Facility**

Projected Income Statement

| | FY 10 | FY 11 | FY 12 |
|----------------------|--------------|--------------|--------------|
| Gross Revenue | \$ 973,724 | \$ 1,303,817 | \$ 1,756,141 |
| Deductions | \$ 223,624 | \$ 299,433 | \$ 403,313 |
| Net Revenue | \$ 750,100 | \$ 1,004,384 | \$ 1,352,828 |
| Expenses: | | | |
| Salaries & Wages | \$ 578,464 | \$ 595,818 | \$ 700,672 |
| Benefits & Taxes | \$ 148,912 | \$ 153,379 | \$ 180,371 |
| Supplies & Services | \$ 90,440 | \$ 121,099 | \$ 163,111 |
| Professional Fees | \$ 1,093 | \$ 1,464 | \$ 1,972 |
| Food Services | \$ 15,381 | \$ 20,595 | \$ 27,740 |
| Facility Supplies | \$ 4,624 | \$ 6,191 | \$ 8,339 |
| Utilities | \$ 34,778 | \$ 35,822 | \$ 36,896 |
| Other Administrative | \$ 25,199 | \$ 33,742 | \$ 45,448 |
| Depreciation | \$ 140,210 | \$ 140,210 | \$ 140,210 |
| Amortization | \$ 11,177 | \$ 11,177 | \$ 11,177 |
| Interest | \$ - | \$ - | \$ - |
| Total Expenses | \$ 1,050,278 | \$ 1,119,497 | \$ 1,315,936 |
| Net Gain/Loss | \$ (300,178) | \$ (115,113) | \$ 36,892 |
| Net Cash Income | \$ (148,791) | \$ 36,274 | \$ 188,279 |

**Angel Home Health and Hospice
Hospice Facility
10-Bed Facility**

Revenue Worksheet

GROSS REVENUE

| Inpatient | FY 10 | FY 11 | FY 12 |
|------------------------|------------|------------|--------------|
| Private Insurance | \$ 14,818 | \$ 19,841 | \$ 26,724 |
| Medicare | \$ 537,869 | \$ 720,206 | \$ 970,063 |
| Medicaid | \$ 8,165 | \$ 10,933 | \$ 14,725 |
| Charity/Self-Pay/Other | \$ 21,671 | \$ 29,017 | \$ 39,084 |
| Subtotal | \$ 582,522 | \$ 779,997 | \$ 1,050,596 |

| Respite | FY 10 | FY 11 | FY 12 |
|------------------------|-----------|-----------|-----------|
| Private Insurance | \$ 348 | \$ 465 | \$ 627 |
| Medicare | \$ 12,617 | \$ 16,894 | \$ 22,755 |
| Medicaid | \$ 192 | \$ 256 | \$ 345 |
| Charity/Self-Pay/Other | \$ 508 | \$ 681 | \$ 917 |
| Subtotal | \$ 13,664 | \$ 18,296 | \$ 24,644 |

| Residential - Home Care | FY 10 | FY 11 | FY 12 |
|-------------------------|------------|------------|------------|
| Private Insurance | \$ 2,985 | \$ 3,997 | \$ 5,384 |
| Medicare | \$ 108,368 | \$ 145,105 | \$ 195,445 |
| Medicaid | \$ 1,645 | \$ 2,203 | \$ 2,967 |
| Charity/Self-Pay/Other | \$ 4,366 | \$ 5,846 | \$ 7,875 |
| Subtotal | \$ 234,730 | \$ 314,303 | \$ 423,342 |

| Residential - Room and Board | FY 10 | FY 11 | FY 12 |
|------------------------------|------------|------------|------------|
| Private Insurance | \$ 3,633 | \$ 4,864 | \$ 6,552 |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ 139,175 | \$ 186,356 | \$ 251,007 |
| Subtotal | \$ 142,808 | \$ 191,220 | \$ 257,559 |

| Total Gross Revenue | FY 10 | FY 11 | FY 12 |
|------------------------|------------|--------------|--------------|
| Private Insurance | \$ 21,783 | \$ 29,168 | \$ 39,287 |
| Medicare | \$ 658,854 | \$ 882,205 | \$ 1,188,263 |
| Medicaid | \$ 10,001 | \$ 13,392 | \$ 18,038 |
| Charity/Self-Pay/Other | \$ 165,721 | \$ 221,900 | \$ 298,883 |
| Total | \$ 973,724 | \$ 1,303,817 | \$ 1,756,141 |

Angel Home Health and Hospice
Hospice Facility
10-Bed Facility

Revenue Worksheet

REVENUE DEDUCTIONS

| Inpatient | FY 10 | FY 11 | FY 12 |
|------------------------|-----------|-----------|------------|
| Private Insurance | \$ 6,603 | \$ 8,842 | \$ 11,909 |
| Medicare | \$ 29,493 | \$ 39,491 | \$ 53,191 |
| Medicaid | \$ 448 | \$ 599 | \$ 807 |
| Charity/Self-Pay/Other | \$ 21,671 | \$ 29,017 | \$ 39,084 |
| Subtotal | \$ 58,215 | \$ 77,950 | \$ 104,992 |

| Respite | FY 10 | FY 11 | FY 12 |
|------------------------|----------|----------|----------|
| Private Insurance | \$ 155 | \$ 207 | \$ 279 |
| Medicare | \$ 692 | \$ 926 | \$ 1,248 |
| Medicaid | \$ 1 | \$ 1 | \$ 2 |
| Charity/Self-Pay/Other | \$ 508 | \$ 681 | \$ 917 |
| Subtotal | \$ 1,356 | \$ 1,816 | \$ 2,446 |

| Residential - Home Care | FY 10 | FY 11 | FY 12 |
|-------------------------|-----------|-----------|-----------|
| Private Insurance | \$ 1,330 | \$ 1,781 | \$ 2,399 |
| Medicare | \$ 5,942 | \$ 7,957 | \$ 10,717 |
| Medicaid | \$ 88 | \$ 118 | \$ 159 |
| Charity/Self-Pay/Other | \$ 4,366 | \$ 5,846 | \$ 7,875 |
| Subtotal | \$ 51,094 | \$ 68,415 | \$ 92,150 |

| Residential - Room and Board | FY 10 | FY 11 | FY 12 |
|------------------------------|------------|------------|------------|
| Private Insurance | \$ 1,619 | \$ 2,168 | \$ 2,920 |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ 111,340 | \$ 149,085 | \$ 200,806 |
| Subtotal | \$ 112,959 | \$ 151,252 | \$ 203,725 |

| Total Revenue Deductions | FY 10 | FY 11 | FY 12 |
|--------------------------|------------|------------|------------|
| Private Insurance | \$ 9,707 | \$ 12,998 | \$ 17,507 |
| Medicare | \$ 36,127 | \$ 48,374 | \$ 65,156 |
| Medicaid | \$ 537 | \$ 719 | \$ 968 |
| Charity/Self-Pay/Other | \$ 137,886 | \$ 184,629 | \$ 248,681 |
| Total | \$ 223,624 | \$ 299,433 | \$ 403,313 |

**Angel Home Health and Hospice
Hospice Facility
10-Bed Facility**

Revenue Worksheet

NET REVENUE

| Inpatient | FY 10 | FY 11 | FY 12 |
|------------------------|------------|------------|------------|
| Private Insurance | \$ 8,215 | \$ 10,999 | \$ 14,815 |
| Medicare | \$ 508,376 | \$ 680,715 | \$ 916,871 |
| Medicaid | \$ 7,717 | \$ 10,333 | \$ 13,918 |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ 524,307 | \$ 702,048 | \$ 945,604 |

| Respite | FY 10 | FY 11 | FY 12 |
|------------------------|-----------|-----------|-----------|
| Private Insurance | \$ 193 | \$ 258 | \$ 348 |
| Medicare | \$ 11,925 | \$ 15,968 | \$ 21,507 |
| Medicaid | \$ 191 | \$ 255 | \$ 344 |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ 12,308 | \$ 16,481 | \$ 22,198 |

| Residential - Home Care | FY 10 | FY 11 | FY 12 |
|-------------------------|------------|------------|------------|
| Private Insurance | \$ 1,655 | \$ 2,216 | \$ 2,985 |
| Medicare | \$ 102,426 | \$ 137,148 | \$ 184,728 |
| Medicaid | \$ 1,557 | \$ 2,085 | \$ 2,808 |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ 183,635 | \$ 245,888 | \$ 331,192 |

| Residential - Room and Board | FY 10 | FY 11 | FY 12 |
|------------------------------|-----------|-----------|-----------|
| Private Insurance | \$ 2,014 | \$ 2,697 | \$ 3,632 |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ 27,835 | \$ 37,271 | \$ 50,201 |
| Subtotal | \$ 29,849 | \$ 39,968 | \$ 53,833 |

| Total Net Revenue | FY 10 | FY 11 | FY 12 |
|------------------------|------------|--------------|--------------|
| Private Insurance | \$ 12,076 | \$ 16,170 | \$ 21,780 |
| Medicare | \$ 622,727 | \$ 833,831 | \$ 1,123,107 |
| Medicaid | \$ 9,464 | \$ 12,673 | \$ 17,069 |
| Charity/Self-Pay/Other | \$ 27,835 | \$ 37,271 | \$ 50,201 |
| Total | \$ 750,100 | \$ 1,004,384 | \$ 1,352,828 |

**Angel Home Health and Hospice
Hospice Facility
10-Bed Facility**

Sources and Uses

SOURCES OF FUNDS:

| | | |
|-------------------|----|-----------|
| Conventional Loan | \$ | - |
| Capital Campaign | \$ | 3,957,400 |
| Interest Earnings | | |

USES OF FUNDS:

| | | |
|-------------------------|----|-----------|
| Land | \$ | 280,000 |
| Site Preparation | \$ | 375,000 |
| Building Costs | \$ | 2,580,000 |
| Furniture and Equipment | \$ | 258,000 |
| Architect Fees | \$ | 206,400 |
| Contingency Fees | \$ | 258,000 |
| | \$ | 3,957,400 |

Assumptions:

| | | | |
|--------------------------|----|-----------|-------------|
| Receipt of Contributions | | | % Each Year |
| FY 10 | \$ | 1,582,960 | 40% |
| FY 11 | \$ | 1,582,960 | 40% |
| FY 12 | \$ | 791,480 | 20% |

Angel Home Health and Hospice
Hospice Facility
10-Bed Facility

Staffing Plan

| PROJECTED FTES | FY 10 | FY 11 | FY 12 |
|--------------------------|-------|-------|-------|
| Medical Director | 0.00 | 0.00 | 0.00 |
| Hospice Director | 0.50 | 0.50 | 0.50 |
| Patient Care Coordinator | 1.00 | 1.00 | 1.00 |
| RN | 4.62 | 4.62 | 6.15 |
| Aides | 4.62 | 4.62 | 4.62 |
| Social Worker | 0.00 | 0.00 | 0.00 |
| Chaplain | 0.00 | 0.00 | 0.00 |
| Dietary/Laundry | 1.40 | 1.40 | 1.40 |
| Housekeeping/Janitor | 1.50 | 1.50 | 1.50 |
| Clerical | 1.00 | 1.00 | 1.00 |
| Total | 14.6 | 14.6 | 16.2 |

Notes:
 Allocated from existing home care staff
 Per experience of other providers
 Per experience of other providers
 Per Staffing model
 Per Staffing model
 Allocated from existing home care staff
 Allocated from existing home care staff
 Per experience of other providers; 1 per day, 7 days to assist with distributing pre-prepared food
 Per experience of other providers
 Per experience of other providers

| PROJECTED SALARIES | FY 10 | FY 11 | FY 12 | FY 08 |
|--------------------------|------------|------------|------------|------------|
| Medical Director | \$ 186,287 | \$ 191,876 | \$ 197,632 | \$ 175,594 |
| Hospice Director | \$ 87,103 | \$ 89,716 | \$ 92,408 | \$ 82,103 |
| Patient Care Coordinator | \$ 82,882 | \$ 85,369 | \$ 87,930 | \$ 78,124 |
| RN | \$ 53,291 | \$ 54,890 | \$ 56,537 | \$ 50,232 |
| Aides | \$ 23,589 | \$ 24,297 | \$ 25,026 | \$ 22,235 |
| Social Worker | \$ 42,236 | \$ 43,503 | \$ 44,808 | \$ 39,811 |
| Chaplain | \$ 49,694 | \$ 51,185 | \$ 52,721 | \$ 46,842 |
| Dietary/Laundry | \$ 25,443 | \$ 26,206 | \$ 26,993 | \$ 23,983 |
| Housekeeping/Janitor | \$ 25,443 | \$ 26,206 | \$ 26,993 | \$ 23,983 |
| Clerical | \$ 23,413 | \$ 24,115 | \$ 24,839 | \$ 22,069 |
| Total | \$ 599,382 | \$ 617,363 | \$ 635,884 | \$ 564,975 |

Client's actual FY08
 Per experience of other providers
 Per experience of other providers
 Client's actual FY08
 Client's actual FY08
 Client's actual FY08
 Per experience of other providers
 Per experience of other providers
 Client's actual FY08

Annual Inflation Factor 3%

| PROJECTED COSTS | FY 10 | FY 11 | FY 12 |
|--------------------------|------------|------------|------------|
| Medical Director | \$ 43,552 | \$ 44,858 | \$ 46,204 |
| Hospice Director | \$ 82,882 | \$ 85,369 | \$ 87,930 |
| Patient Care Coordinator | \$ 245,959 | \$ 253,338 | \$ 261,917 |
| RN | \$ 108,874 | \$ 112,140 | \$ 115,504 |
| Aides | \$ - | \$ - | \$ - |
| Social Worker | \$ - | \$ - | \$ - |
| Chaplain | \$ - | \$ - | \$ - |
| Dietary/Laundry | \$ 35,620 | \$ 36,689 | \$ 37,790 |
| Housekeeping/Janitor | \$ 38,165 | \$ 39,310 | \$ 40,489 |
| Clerical | \$ 23,413 | \$ 24,115 | \$ 24,839 |
| Total | \$ 578,464 | \$ 595,818 | \$ 700,672 |
| Average per FTE | \$ 39,538 | \$ 40,724 | \$ 43,334 |

Angel Home Health and Hospice
Hospice Facility
10-Bed Facility

Staffing Plan

Assumptions:
Average Daily Census

| | FY 10 | FY 11 | FY 12 |
|-------------|-------|-------|-------|
| Inpatient | 2.5 | 3.3 | 4.3 |
| Respite | 0.3 | 0.3 | 0.4 |
| Residential | 2.3 | 2.9 | 3.8 |
| Total ADC | 5.0 | 6.5 | 8.5 |

| Patients per RN | Patients per RN | | |
|-----------------|-----------------|-----------|-----------|
| | 1st Shift | 2nd Shift | 3rd Shift |
| Inpatient | 5 | 5 | 10 |
| Respite | 30 | 30 | 30 |
| Residential | 0 | 0 | 0 |

| Patients per Aide | Patients per Aide | | |
|-------------------|-------------------|-----------|-----------|
| | 1st Shift | 2nd Shift | 3rd Shift |
| Inpatient | 10 | 10 | 15 |
| Respite | 10 | 10 | 20 |
| Residential | 10 | 10 | 20 |

Staffing Plan FY 10

| | 1st Shift | 2nd Shift | 3rd Shift | Total/Day | Total FTEs | Total Paid FTEs |
|-------|-----------|-----------|-----------|-----------|------------|-----------------|
| RNs | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Aides | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Total | 2.0 | 2.0 | 2.0 | 6.0 | 8.4 | 9.2 |

Staffing Plan FY 11

| | 1st Shift | 2nd Shift | 3rd Shift | Total/Day | Total FTEs | Total Paid FTEs |
|-------|-----------|-----------|-----------|-----------|------------|-----------------|
| RNs | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Aides | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Total | 2.0 | 2.0 | 2.0 | 6.0 | 8.4 | 9.2 |

Staffing Plan FY 12

| | 1st Shift | 2nd Shift | 3rd Shift | Total/Day | Total FTEs | Total Paid FTEs |
|-------|-----------|-----------|-----------|-----------|------------|-----------------|
| RNs | 1.5 | 1.5 | 1.0 | 4.0 | 5.6 | 6.2 |
| Aides | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Total | 2.5 | 2.5 | 2.0 | 7.0 | 9.8 | 10.8 |

Angel Home Health and Hospice
Hospice Facility
10-Bed Facility

Assumptions

Notes to Assumptions

Projected Opening Date: 10/1/2010 Approximately 18 months from CON issuance

Number of Beds: 10 See Market Feasibility

Patient Mix: # of Beds See Market Feasibility

| | % of Days | # of Beds |
|-------------|-----------|-----------|
| Inpatient | 50% | 5.0 |
| Respite | 5% | 0.5 |
| Residential | 45% | 4.5 |

Estimated Occupancy Rate: FY 10 FY 11 FY 12
50% 65% 85%
Target of 85%, with 2-year fill-up rate

Patient Days:

| | FY 10 | FY 11 | FY 12 |
|--------------|--------------|--------------|--------------|
| Inpatient | 913 | 1,186 | 1,551 |
| Respite | 91 | 119 | 155 |
| Residential | 821 | 1,068 | 1,396 |
| Total | 1,825 | 2,373 | 3,103 |

Charges:

| | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------------|--------|--------|--------|--------|
| Inpatient | \$ 638 | \$ 658 | \$ 677 | \$ 602 |
| Respite | \$ 150 | \$ 154 | \$ 159 | \$ 141 |
| Residential - Home Care Portion | \$ 143 | \$ 147 | \$ 152 | \$ 135 |
| Residential - Room and Board | \$ 174 | \$ 179 | \$ 184 | \$ 164 |

Assumes Mcare reim is 94.5% of charge
Assumes Mcare reim is 94.5% of charge
Assumes Mcare reim is 94.5% of charge
Market Rate

Annual Charge Increase 3%

Medicare Reimbursement:

| | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------------|--------|-----------|-----------|-----------|
| Inpatient | \$ 603 | \$ 621.48 | \$ 640.12 | \$ 568.74 |
| Respite | \$ 142 | \$ 145.78 | \$ 150.15 | \$ 133.41 |
| Residential - Home Care Portion | \$ 135 | \$ 139.13 | \$ 143.30 | \$ 127.32 |

Actual FY08 reimbursement rates

Annual Medicare Rate Increase 3%

Medicaid Reimbursement:

| | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------------|--------|-----------|-----------|-----------|
| Inpatient | \$ 603 | \$ 621.48 | \$ 640.12 | \$ 568.74 |
| Respite | \$ 149 | \$ 153.45 | \$ 158.06 | \$ 140.43 |
| Residential - Home Care Portion | \$ 135 | \$ 139.30 | \$ 143.48 | \$ 127.48 |

Actual FY08 reimbursement rates

Annual Medicaid Rate Increase 3%

Angel Home Health and Hospice
Hospice Facility
10-Bed Facility

Assumptions

Notes to Assumptions

| Payor Mix: | Residential - Home Care | | | Residential - Room and Board | |
|------------------------|-------------------------|---------------|---------------|------------------------------|---------------|
| | IP - Acute | IP - Respite | Home Care | Room and Board | Board |
| Private Insurance | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Medicare | 92.3% | 92.3% | 92.3% | 0.0% | 0.0% |
| Medicaid | 1.4% | 1.4% | 1.4% | 0.0% | 0.0% |
| Self Pay/Charity/Other | 3.7% | 3.7% | 3.7% | 97.5% | 97.5% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

2-yr average of Client's actual experience

Deductions as % of Revenue:

| | Residential - Home Care | | | Residential - Room and Board | |
|------------------------|-------------------------|--------------|-----------|------------------------------|-------|
| | IP - Acute | IP - Respite | Home Care | Room and Board | Board |
| Private Insurance | 44.6% | 44.6% | 44.6% | 44.6% | 44.6% |
| Medicare | 5.5% | 5.5% | 5.5% | 0.0% | 0.0% |
| Medicaid | 24.7% | 24.7% | 24.7% | 0.0% | 0.0% |
| Self Pay/Charity/Other | 100.0% | 100.0% | 100.0% | 80.0% | 80.0% |

Per experience of other providers

Angel Home Health and Hospice
 Hospice Facility
 10-Bed Facility

Notes to Assumptions

Assumptions

| | | Annual Depreciation: | |
|-------------------------------------|--------------|----------------------|--|
| Capital Cost Assumptions: | | | |
| Total Square Feet per Bed | 1,200 | | |
| Total Facility Square Feet | 12,000 | | |
| Construction Cost per SF | \$ 215 | | Per experience of other providers |
| Total Construction Costs | \$ 2,580,000 | \$ 64,500 | |
| Years Depreciated | 40 | | |
| Acreage | 8 | | |
| Cost per Acre | \$ 35,000 | | |
| Estimate of Land Cost | \$ 280,000 | | |
| Site Preparation | \$ 375,000 | \$ 12,500 | Per experience of other providers |
| Years Depreciated | 30 | | |
| Furniture and Equipment | | | |
| (10% of Construction Costs) | \$ 258,000 | \$ 51,600 | |
| Years Depreciated | 5 | | |
| Architect Fees | | | |
| (8% of Construction Costs) | \$ 206,400 | \$ 5,160 | |
| Years Depreciated | 40 | | |
| Contingency | | | |
| (10% of Construction Costs) | \$ 258,000 | \$ 6,450 | |
| Years Depreciated | 40 | \$ 140,210 | |
| Capital costs | \$ 3,957,400 | | |
| Benefits & Taxes as a % of Salaries | 26% | | Client's actual % from Hospice Operating Statement |
| Annual Inflation Factor | 3% | | |

Angel Home Health and Hospice
Hospice Facility
10-Bed Facility

Assumptions

Notes to Assumptions

| Per Patient Day Costs | FY 10 | FY 11 | FY 12 | |
|--|----------|----------|----------|--|
| Supplies & Services - IP Acute | \$ 74.33 | \$ 76.56 | \$ 78.86 | 3x home care cost; per experience of other providers |
| Supplies & Services - IP Respite & Residential | \$ 24.78 | \$ 25.52 | \$ 26.29 | Per experience of other providers |
| Food Services | \$ 8.43 | \$ 8.68 | \$ 8.94 | Per experience of other providers |
| Facility Supplies (Hkpg & Laundry) | \$ 2.53 | \$ 2.61 | \$ 2.69 | Per experience of other providers |
| Other Administrative | \$ 13.81 | \$ 14.22 | \$ 14.65 | Per experience of other providers |
| Professional fees | \$ 0.60 | \$ 0.62 | \$ 0.64 | Per client actual in 2007 |

Utilities:

| | FY 10 | FY 11 | FY 12 | |
|-------------|---------|---------|---------|-----------------------------------|
| Per SF cost | \$ 2.90 | \$ 2.99 | \$ 3.07 | Per experience of other providers |

Start-Up Costs:

| PROJECTED SALARIES | Annual Salary | Prior to | Total Cost |
|---------------------------------------|---------------|------------------|-------------|
| Hospice Director | \$ 43,552 | Opening 2 months | \$ 7,258.59 |
| Patient Care Coordinator | \$ 82,882 | 1 month | \$ 6,906.85 |
| RN | \$ 245,959 | 2 weeks | \$ 9,460 |
| Aides | \$ 108,874 | 2 weeks | \$ 4,187 |
| Dietary/Laundry | \$ 35,620 | 2 weeks | \$ 1,370 |
| Housekeeping/Janitor | \$ 38,165 | 1 month | \$ 3,180 |
| | | | \$ 33,264 |
| Benefits & Taxes | | | \$ 8,563 |
| Supply Inventory (1 month) | | | \$ 7,537 |
| Professional Fees (6 months) | | | \$ 547 |
| Food Services Inventory (2 weeks) | | | \$ 592 |
| Facility Supplies Inventory (1 month) | | | \$ 385 |
| Utilities (1 month) | | | \$ 2,898 |
| Other Administrative (1 month) | | | \$ 2,100 |

Years Amortized 5

Annual Amortization \$ 11,177

**Exhibit 3:
Financial Analysis: 12-Bed Facility**

**Angel Home Health and Hospice
Hospice Facility
12-Bed Facility**

Projected Income Statement

| | FY 10 | FY 11 | FY 12 |
|----------------------|--------------|--------------|--------------|
| Gross Revenue | \$ 1,168,469 | \$ 1,564,580 | \$ 2,107,369 |
| Deductions | \$ 268,349 | \$ 359,320 | \$ 483,976 |
| Net Revenue | \$ 900,120 | \$ 1,205,261 | \$ 1,623,393 |
| Expenses: | | | |
| Salaries & Wages | \$ 578,464 | \$ 595,818 | \$ 826,153 |
| Benefits & Taxes | \$ 148,912 | \$ 153,379 | \$ 212,673 |
| Supplies & Services | \$ 108,528 | \$ 145,319 | \$ 195,733 |
| Professional Fees | \$ 1,312 | \$ 1,757 | \$ 2,366 |
| Food Services | \$ 18,457 | \$ 24,714 | \$ 33,288 |
| Facility Supplies | \$ 5,548 | \$ 7,429 | \$ 10,007 |
| Utilities | \$ 41,734 | \$ 42,986 | \$ 44,275 |
| Other Administrative | \$ 30,239 | \$ 40,490 | \$ 54,537 |
| Depreciation | \$ 165,752 | \$ 165,752 | \$ 165,752 |
| Amortization | \$ 11,739 | \$ 11,739 | \$ 11,739 |
| Interest | \$ - | \$ - | \$ - |
| Total Expenses | \$ 1,110,685 | \$ 1,189,383 | \$ 1,556,524 |
| Net Gain/Loss | \$ (210,566) | \$ 15,877 | \$ 66,870 |
| Net Cash Income | \$ (33,074) | \$ 193,369 | \$ 244,361 |

**Angel Home Health and Hospice
Hospice Facility
12-Bed Facility**

Revenue Worksheet

GROSS REVENUE

| Inpatient | FY 10 | FY 11 | FY 12 |
|------------------------|------------|------------|--------------|
| Private Insurance | \$ 17,781 | \$ 23,809 | \$ 32,069 |
| Medicare | \$ 645,443 | \$ 864,248 | \$ 1,164,075 |
| Medicaid | \$ 9,798 | \$ 13,119 | \$ 17,670 |
| Charity/Self-Pay/Other | \$ 26,005 | \$ 34,821 | \$ 46,901 |
| Subtotal | \$ 699,027 | \$ 935,997 | \$ 1,260,716 |

| Respite | FY 10 | FY 11 | FY 12 |
|------------------------|-----------|-----------|-----------|
| Private Insurance | \$ 417 | \$ 558 | \$ 752 |
| Medicare | \$ 15,140 | \$ 20,273 | \$ 27,306 |
| Medicaid | \$ 230 | \$ 308 | \$ 414 |
| Charity/Self-Pay/Other | \$ 610 | \$ 817 | \$ 1,100 |
| Subtotal | \$ 16,397 | \$ 21,956 | \$ 29,573 |

| Residential - Home Care | FY 10 | FY 11 | FY 12 |
|-------------------------|------------|------------|------------|
| Private Insurance | \$ 3,583 | \$ 4,797 | \$ 6,461 |
| Medicare | \$ 130,042 | \$ 174,126 | \$ 234,534 |
| Medicaid | \$ 1,974 | \$ 2,643 | \$ 3,560 |
| Charity/Self-Pay/Other | \$ 5,239 | \$ 7,016 | \$ 9,449 |
| Subtotal | \$ 281,676 | \$ 377,164 | \$ 508,010 |

| Residential - Room and Board | FY 10 | FY 11 | FY 12 |
|------------------------------|------------|------------|------------|
| Private Insurance | \$ 4,359 | \$ 5,837 | \$ 7,862 |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ 167,011 | \$ 223,627 | \$ 301,208 |
| Subtotal | \$ 171,370 | \$ 229,464 | \$ 309,070 |

| Total Gross Revenue | FY 10 | FY 11 | FY 12 |
|------------------------|--------------|--------------|--------------|
| Private Insurance | \$ 26,140 | \$ 35,002 | \$ 47,144 |
| Medicare | \$ 790,625 | \$ 1,058,646 | \$ 1,425,915 |
| Medicaid | \$ 12,002 | \$ 16,070 | \$ 21,645 |
| Charity/Self-Pay/Other | \$ 198,865 | \$ 266,280 | \$ 358,659 |
| Total | \$ 1,168,469 | \$ 1,564,580 | \$ 2,107,369 |

**Angel Home Health and Hospice
Hospice Facility
12-Bed Facility**

Revenue Worksheet

REVENUE DEDUCTIONS

| Inpatient | FY 10 | FY 11 | FY 12 |
|------------------------|-----------|-----------|------------|
| Private Insurance | \$ 7,924 | \$ 10,610 | \$ 14,291 |
| Medicare | \$ 35,391 | \$ 47,389 | \$ 63,830 |
| Medicaid | \$ 537 | \$ 719 | \$ 969 |
| Charity/Self-Pay/Other | \$ 26,005 | \$ 34,821 | \$ 46,901 |
| Subtotal | \$ 69,858 | \$ 93,540 | \$ 125,991 |

| Respite | FY 10 | FY 11 | FY 12 |
|------------------------|----------|----------|----------|
| Private Insurance | \$ 186 | \$ 249 | \$ 335 |
| Medicare | \$ 830 | \$ 1,112 | \$ 1,497 |
| Medicaid | \$ 1 | \$ 2 | \$ 2 |
| Charity/Self-Pay/Other | \$ 610 | \$ 817 | \$ 1,100 |
| Subtotal | \$ 1,627 | \$ 2,179 | \$ 2,935 |

| Residential - Home Care | FY 10 | FY 11 | FY 12 |
|-------------------------|-----------|-----------|------------|
| Private Insurance | \$ 1,596 | \$ 2,138 | \$ 2,879 |
| Medicare | \$ 7,131 | \$ 9,548 | \$ 12,860 |
| Medicaid | \$ 106 | \$ 142 | \$ 191 |
| Charity/Self-Pay/Other | \$ 5,239 | \$ 7,016 | \$ 9,449 |
| Subtotal | \$ 61,313 | \$ 82,098 | \$ 110,580 |

| Residential - Room and Board | FY 10 | FY 11 | FY 12 |
|------------------------------|------------|------------|------------|
| Private Insurance | \$ 1,943 | \$ 2,601 | \$ 3,503 |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ 133,608 | \$ 178,902 | \$ 240,967 |
| Subtotal | \$ 135,551 | \$ 181,503 | \$ 244,470 |

| Total Revenue Deductions | FY 10 | FY 11 | FY 12 |
|--------------------------|------------|------------|------------|
| Private Insurance | \$ 11,649 | \$ 15,598 | \$ 21,009 |
| Medicare | \$ 43,352 | \$ 58,049 | \$ 78,187 |
| Medicaid | \$ 644 | \$ 863 | \$ 1,162 |
| Charity/Self-Pay/Other | \$ 165,463 | \$ 221,555 | \$ 298,417 |
| Total | \$ 268,349 | \$ 359,320 | \$ 483,976 |

**Angel Home Health and Hospice
Hospice Facility
12-Bed Facility**

Revenue Worksheet

NET REVENUE

| Inpatient | FY 10 | FY 11 | FY 12 |
|------------------------|------------|------------|--------------|
| Private Insurance | \$ 9,857 | \$ 13,199 | \$ 17,778 |
| Medicare | \$ 610,051 | \$ 816,858 | \$ 1,100,245 |
| Medicaid | \$ 9,260 | \$ 12,400 | \$ 16,701 |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ 629,169 | \$ 842,457 | \$ 1,134,725 |

| Respite | FY 10 | FY 11 | FY 12 |
|------------------------|-----------|-----------|-----------|
| Private Insurance | \$ 231 | \$ 310 | \$ 417 |
| Medicare | \$ 14,310 | \$ 19,161 | \$ 25,809 |
| Medicaid | \$ 229 | \$ 306 | \$ 412 |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ 14,770 | \$ 19,777 | \$ 26,638 |

| Residential - Home Care | FY 10 | FY 11 | FY 12 |
|-------------------------|------------|------------|------------|
| Private Insurance | \$ 1,986 | \$ 2,659 | \$ 3,582 |
| Medicare | \$ 122,911 | \$ 164,578 | \$ 221,674 |
| Medicaid | \$ 1,868 | \$ 2,501 | \$ 3,369 |
| Charity/Self-Pay/Other | \$ - | \$ - | \$ - |
| Subtotal | \$ 220,362 | \$ 295,065 | \$ 397,430 |

| Residential - Room and Board | FY 10 | FY 11 | FY 12 |
|------------------------------|-----------|-----------|-----------|
| Private Insurance | \$ 2,417 | \$ 3,236 | \$ 4,358 |
| Medicare | \$ - | \$ - | \$ - |
| Medicaid | \$ - | \$ - | \$ - |
| Charity/Self-Pay/Other | \$ 33,402 | \$ 44,725 | \$ 60,242 |
| Subtotal | \$ 35,819 | \$ 47,961 | \$ 64,600 |

| Total Net Revenue | FY 10 | FY 11 | FY 12 |
|------------------------|------------|--------------|--------------|
| Private Insurance | \$ 14,491 | \$ 19,404 | \$ 26,135 |
| Medicare | \$ 747,272 | \$ 1,000,598 | \$ 1,347,728 |
| Medicaid | \$ 11,357 | \$ 15,207 | \$ 20,483 |
| Charity/Self-Pay/Other | \$ 33,402 | \$ 44,725 | \$ 60,242 |
| Total | \$ 900,120 | \$ 1,205,261 | \$ 1,623,393 |

**Angel Home Health and Hospice
Hospice Facility
12-Bed Facility**

Sources and Uses

SOURCES OF FUNDS:

| | | |
|-------------------|----|-----------|
| Conventional Loan | \$ | - |
| Capital Campaign | \$ | 4,617,880 |
| Interest Earnings | | |

USES OF FUNDS:

| | | |
|-------------------------|----|-----------|
| Land | \$ | 280,000 |
| Site Preparation | \$ | 375,000 |
| Building Costs | \$ | 3,096,000 |
| Furniture and Equipment | \$ | 309,600 |
| Architect Fees | \$ | 247,680 |
| Contingency Fees | \$ | 309,600 |
| | \$ | 4,617,880 |

Assumptions:

| | | | |
|--------------------------|----|-----------|-------------|
| Receipt of Contributions | | | % Each Year |
| FY 10 | \$ | 1,847,152 | 40% |
| FY 11 | \$ | 1,847,152 | 40% |
| FY 12 | \$ | 923,576 | 20% |

Angel Home Health and Hospice
Hospice Facility
12-Bed Facility

Staffing Plan

| PROJECTED FTES | FY 10 | FY 11 | FY 12 |
|--------------------------|-------|-------|-------|
| Medical Director | 0.00 | 0.00 | 0.00 |
| Hospice Director | 0.50 | 0.50 | 0.50 |
| Patient Care Coordinator | 1.00 | 1.00 | 1.00 |
| RN | 4.62 | 4.62 | 7.69 |
| Aides | 4.62 | 4.62 | 6.15 |
| Social Worker | 0.00 | 0.00 | 0.00 |
| Chaplain | 0.00 | 0.00 | 0.00 |
| Dietary/Laundry | 1.40 | 1.40 | 1.40 |
| Housekeeping/Janitor | 1.50 | 1.50 | 1.50 |
| Clerical | 1.00 | 1.00 | 1.00 |
| Total | 14.6 | 14.6 | 19.2 |

Notes:

- Allocated from existing home care staff
- Per experience of other providers
- Per experience of other providers
- Per Staffing model
- Per Staffing model
- Allocated from existing home care staff
- Allocated from existing home care staff
- Per experience of other providers; 1 per day, 7 days to assist with distributing pre-prepared food
- Per experience of other providers
- Per experience of other providers

| PROJECTED SALARIES | FY 10 | FY 11 | FY 12 | FY 08 |
|--------------------------|------------|------------|------------|------------|
| Medical Director | \$ 186,287 | \$ 191,876 | \$ 197,632 | \$ 175,594 |
| Hospice Director | \$ 87,103 | \$ 89,716 | \$ 92,408 | \$ 82,103 |
| Patient Care Coordinator | \$ 82,882 | \$ 85,369 | \$ 87,930 | \$ 78,124 |
| RN | \$ 53,291 | \$ 54,890 | \$ 56,537 | \$ 50,232 |
| Aides | \$ 23,589 | \$ 24,297 | \$ 25,026 | \$ 22,235 |
| Social Worker | \$ 42,236 | \$ 43,503 | \$ 44,808 | \$ 39,811 |
| Chaplain | \$ 49,694 | \$ 51,185 | \$ 52,721 | \$ 46,842 |
| Dietary/Laundry | \$ 25,443 | \$ 26,206 | \$ 26,993 | \$ 23,983 |
| Housekeeping/Janitor | \$ 25,443 | \$ 26,206 | \$ 26,993 | \$ 23,983 |
| Clerical | \$ 23,413 | \$ 24,115 | \$ 24,839 | \$ 22,069 |
| Total | \$ 599,382 | \$ 617,363 | \$ 635,884 | \$ 564,975 |

- Client's actual FY08
- Per experience of other providers
- Per experience of other providers
- Client's actual FY08
- Client's actual FY08
- Client's actual FY08
- Client's actual FY08
- Per experience of other providers
- Per experience of other providers
- Client's actual FY08

Annual Inflation Factor 3%

| PROJECTED COSTS | FY 10 | FY 11 | FY 12 |
|--------------------------|------------|------------|------------|
| Medical Director | \$ 43,552 | \$ 44,858 | \$ 46,204 |
| Hospice Director | \$ 82,882 | \$ 85,369 | \$ 87,930 |
| Patient Care Coordinator | \$ 245,959 | \$ 253,338 | \$ 434,897 |
| RN | \$ 108,874 | \$ 112,140 | \$ 154,006 |
| Aides | \$ - | \$ - | \$ - |
| Social Worker | \$ - | \$ - | \$ - |
| Chaplain | \$ 35,620 | \$ 36,689 | \$ 37,790 |
| Dietary/Laundry | \$ 38,165 | \$ 39,310 | \$ 40,489 |
| Housekeeping/Janitor | \$ 23,413 | \$ 24,115 | \$ 24,839 |
| Clerical | \$ 578,464 | \$ 595,818 | \$ 826,153 |
| Total | \$ 39,538 | \$ 40,724 | \$ 42,926 |

Average per FTE

Angel Home Health and Hospice
Hospice Facility
12-Bed Facility

Staffing Plan

Assumptions:

| Average Daily Census | FY 10 | FY 11 | FY 12 |
|----------------------|-------|-------|-------|
| Inpatient | 3.0 | 3.9 | 5.1 |
| Respite | 0.3 | 0.4 | 0.5 |
| Residential | 2.7 | 3.5 | 4.6 |
| Total ADC | 6.0 | 7.8 | 10.2 |

| Patients per RN | Patients per RN | | |
|-----------------|-----------------|-----------|-----------|
| | 1st Shift | 2nd Shift | 3rd Shift |
| Inpatient | 5 | 5 | 10 |
| Respite | 30 | 30 | 30 |
| Residential | 0 | 0 | 0 |

| Patients per Aide | Patients per Aide | | |
|-------------------|-------------------|-----------|-----------|
| | 1st Shift | 2nd Shift | 3rd Shift |
| Inpatient | 10 | 10 | 15 |
| Respite | 10 | 10 | 20 |
| Residential | 10 | 10 | 20 |

Staffing Plan FY 10

| | 1st Shift | 2nd Shift | 3rd Shift | Total/Day | Total FTEs | Total Paid FTEs |
|-------|-----------|-----------|-----------|-----------|------------|-----------------|
| RNs | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Aides | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Total | 2.0 | 2.0 | 2.0 | 6.0 | 8.4 | 9.2 |

Staffing Plan FY 11

| | 1st Shift | 2nd Shift | 3rd Shift | Total/Day | Total FTEs | Total Paid FTEs |
|-------|-----------|-----------|-----------|-----------|------------|-----------------|
| RNs | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Aides | 1.0 | 1.0 | 1.0 | 3.0 | 4.2 | 4.6 |
| Total | 2.0 | 2.0 | 2.0 | 6.0 | 8.4 | 9.2 |

Staffing Plan FY 12

| | 1st Shift | 2nd Shift | 3rd Shift | Total/Day | Total FTEs | Total Paid FTEs |
|-------|-----------|-----------|-----------|-----------|------------|-----------------|
| RNs | 2.0 | 2.0 | 1.0 | 5.0 | 7.0 | 7.7 |
| Aides | 1.5 | 1.5 | 1.0 | 4.0 | 5.6 | 6.2 |
| Total | 3.5 | 3.5 | 2.0 | 9.0 | 12.6 | 13.8 |

Angel Home Health and Hospice
Hospice Facility
12-Bed Facility

Assumptions

Notes to Assumptions

Projected Opening Date: 10/1/2010 Approximately 18 months from CON issuance

Number of Beds: 12 See Market Feasibility

| Patient Mix: | % of Days | # of Beds |
|--------------|-----------|-----------|
| Inpatient | 50% | 6.0 |
| Respite | 5% | 0.6 |
| Residential | 45% | 5.4 |

See Market Feasibility

| Estimated Occupancy Rate: | FY 10 | FY 11 | FY 12 |
|---------------------------|-------|-------|-------|
| | 50% | 65% | 85% |

Target of 85%, with 2-year fill-up rate

| Patient Days: | FY 10 | FY 11 | FY 12 |
|---------------|--------------|--------------|--------------|
| Inpatient | 1,095 | 1,424 | 1,862 |
| Respite | 110 | 142 | 186 |
| Residential | 986 | 1,281 | 1,675 |
| Total | 2,190 | 2,847 | 3,723 |

| Charges: | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------------|--------|--------|--------|--------|
| Inpatient | \$ 638 | \$ 658 | \$ 677 | \$ 602 |
| Respite | \$ 150 | \$ 154 | \$ 159 | \$ 141 |
| Residential - Home Care Portion | \$ 143 | \$ 147 | \$ 152 | \$ 135 |
| Residential - Room and Board | \$ 174 | \$ 179 | \$ 184 | \$ 164 |

Assumes Mcare reim is 94.5% of charge
Assumes Mcare reim is 94.5% of charge
Assumes Mcare reim is 94.5% of charge
Market Rate

Annual Charge Increase 3%

| Medicare Reimbursement: | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------------|--------|-----------|-----------|-----------|
| Inpatient | \$ 603 | \$ 621.48 | \$ 640.12 | \$ 568.74 |
| Respite | \$ 142 | \$ 145.78 | \$ 150.15 | \$ 133.41 |
| Residential - Home Care Portion | \$ 135 | \$ 139.13 | \$ 143.30 | \$ 127.32 |

Actual FY08 reimbursement rates

Annual Medicare Rate Increase 3%

| Medicaid Reimbursement: | FY 10 | FY 11 | FY 12 | FY 08 |
|---------------------------------|--------|-----------|-----------|-----------|
| Inpatient | \$ 603 | \$ 621.48 | \$ 640.12 | \$ 568.74 |
| Respite | \$ 149 | \$ 153.45 | \$ 158.06 | \$ 140.43 |
| Residential - Home Care Portion | \$ 135 | \$ 139.30 | \$ 143.48 | \$ 127.48 |

Actual FY08 reimbursement rates

Annual Medicaid Rate Increase 3%

Angel Home Health and Hospice
Hospice Facility
12-Bed Facility

Notes to Assumptions

Assumptions

| Payor Mix: | IP - Acute | IP - Respite | Residential - Home Care | Residential - Room and Board | Notes |
|------------------------|------------|--------------|-------------------------|------------------------------|--|
| Private Insurance | 2.5% | 2.5% | 2.5% | 2.5% | 2-yr average of Client's actual experience |
| Medicare | 92.3% | 92.3% | 92.3% | 0.0% | |
| Medicaid | 1.4% | 1.4% | 1.4% | 0.0% | |
| Self Pay/Charity/Other | 3.7% | 3.7% | 3.7% | 97.5% | |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | |

| Deductions as % of Revenue: | IP - Acute | IP - Respite | Residential - Home Care | Residential - Room and Board | Notes |
|-----------------------------|------------|--------------|-------------------------|------------------------------|-----------------------------------|
| Private Insurance | 44.6% | 44.6% | 44.6% | 44.6% | |
| Medicare | 5.5% | 5.5% | 5.5% | 0.0% | |
| Medicaid | 24.7% | 24.7% | 24.7% | 0.0% | |
| Self Pay/Charity/Other | 100.0% | 100.0% | 100.0% | 80.0% | Per experience of other providers |

Angel Home Health and Hospice
Hospice Facility
12-Bed Facility

Assumptions

Notes to Assumptions

| | | Annual Depreciation: | |
|--|---------------------|----------------------|--|
| Capital Cost Assumptions: | | | |
| Total Square Feet per Bed | 1,200 | | |
| Total Facility Square Feet | 14,400 | | |
| Construction Cost per SF | \$ 215 | | Per experience of other providers |
| Total Construction Costs | \$ 3,096,000 | \$ 77,400 | |
| Years Depreciated | 40 | | |
| Acreage | 8 | | |
| Cost per Acre | \$ 35,000 | | |
| Estimate of Land Cost | \$ 280,000 | | |
| Site Preparation | \$ 375,000 | \$ 12,500 | Per experience of other providers |
| Years Depreciated | 30 | | |
| Furniture and Equipment | \$ 309,600 | \$ 61,920 | |
| (10% of Construction Costs) | | | |
| Years Depreciated | 5 | | |
| Architect Fees | \$ 247,680 | \$ 6,192 | |
| (8% of Construction Costs) | | | |
| Years Depreciated | 40 | | |
| Contingency | \$ 309,600 | \$ 7,740 | |
| (10% of Construction Costs) | | | |
| Years Depreciated | 40 | \$ 165,752 | |
| Capital costs | \$ 4,617,880 | | |
| Benefits & Taxes as a % of Salaries | 26% | | Client's actual % from Hospice Operating Statement |
| Annual Inflation Factor | 3% | | |

Angel Home Health and Hospice
Hospice Facility
12-Bed Facility

Assumptions

Notes to Assumptions

| Per Patient Day Costs | FY 10 | FY 11 | FY 12 | |
|--|---------------|---------------|---------------|--|
| Supplies & Services - IP Acute | \$ 74.33 | \$ 76.56 | \$ 78.86 | 3x home care cost; per experience of other providers |
| Supplies & Services - IP Respite & Residential | \$ 24.78 | \$ 25.52 | \$ 26.29 | Per experience of other providers |
| Food Services | \$ 8.43 | \$ 8.68 | \$ 8.94 | Per experience of other providers |
| Facility Supplies (Hkpg & Laundry) | \$ 2.53 | \$ 2.61 | \$ 2.69 | Per experience of other providers |
| Other Administrative | \$ 13.81 | \$ 14.22 | \$ 14.65 | Per experience of other providers |
| Professional fees | \$ 0.60 | \$ 0.62 | \$ 0.64 | Per client actual in 2007 |
| Utilities: | | | | |
| Per SF cost | FY 10 \$ 2.90 | FY 11 \$ 2.99 | FY 12 \$ 3.07 | Per experience of other providers |

Start-Up Costs:

PROJECTED SALARIES

| | Annual Salary Cost | Prior to Opening | Total Cost |
|---------------------------------------|--------------------|------------------|------------|
| Hospice Director | \$ 43,552 | 2 months | 7,258.59 |
| Patient Care Coordinator | \$ 82,882 | 1 month | 6,906.85 |
| RN | \$ 245,959 | 2 weeks | \$ 9,460 |
| Aides | \$ 108,874 | 2 weeks | \$ 4,187 |
| Dietary/Laundry | \$ 35,620 | 2 weeks | \$ 1,370 |
| Housekeeping/Janitor | \$ 38,165 | 1 month | \$ 3,180 |
| | | | \$ 33,264 |
| Benefits & Taxes | | | \$ 8,563 |
| Supply Inventory (1 month) | | | \$ 9,044 |
| Professional Fees (6 months) | | | \$ 656 |
| Food Services Inventory (2 weeks) | | | \$ 710 |
| Facility Supplies Inventory (1 month) | | | \$ 462 |
| Utilities (1 month) | | | \$ 3,478 |
| Other Administrative (1 month) | | | \$ 2,520 |
| Years Amortized | | | 5 |
| Annual Amortization | | | \$ 11,739 |