

**LIVINGSTON MEMORIAL VNA
HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

DECEMBER 31, 2009 AND 2008

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To the Board of Directors of
Livingston Memorial VNA
Health Corp. and Subsidiaries
(A California Non-Profit Corporation)
Ventura, California

Independent Auditors' Report



We have audited the accompanying consolidated balance sheets of Livingston Memorial VNA Health Corp. and Subsidiaries, a California non-profit corporation, as of December 31, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, cash flows, and functional expenses for the years then ended. These consolidated financial statements are the responsibility of the Livingston Memorial VNA Health Corp. and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Livingston Memorial VNA Health Corp. and Subsidiaries' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Livingston Memorial VNA Health Corp. and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating supplemental information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Kellogg + Andelson

May 4, 2010

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LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 682,938	\$ 609,640
Patient accounts receivable, net of allowance for doubtful accounts of \$308,170 and \$378,876, respectively	1,111,236	1,087,793
Other receivables	9,676	6,865
Prepaid expenses and other current assets	<u>239,656</u>	<u>199,533</u>
Total current assets	2,043,506	1,903,831
INVESTMENTS AND ASSETS LIMITED AS TO USE	857,321	1,009,012
PROPERTY AND EQUIPMENT, NET	<u>212,843</u>	<u>315,831</u>
Total assets	<u>\$ 3,113,670</u>	<u>\$ 3,228,674</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 226,899	\$ 203,835
Accrued expenses	536,550	915,370
Line of credit	<u>-</u>	<u>99,709</u>
Total current liabilities	<u>763,449</u>	<u>1,218,914</u>
Total liabilities	<u>763,449</u>	<u>1,218,914</u>
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS:		
Unrestricted:		
General	1,433,021	1,124,303
Board designated	<u>798,171</u>	<u>656,457</u>
Total unrestricted	2,231,192	1,780,760
Temporarily restricted	59,879	170,100
Permanently restricted	<u>59,150</u>	<u>58,900</u>
Total net assets	<u>2,350,221</u>	<u>2,009,760</u>
Total liabilities and net assets	<u>\$ 3,113,670</u>	<u>\$ 3,228,674</u>

The accompanying notes are an integral part of the consolidated financial statements

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUE AND SUPPORT:		
Net patient service	\$ 13,172,823	\$ 12,236,620
(Loss) income on investments and assets limited as to use, net of expenses of \$16,538 and \$12,816, respectively	(40,363)	122,547
Contributions and grants	313,464	167,939
Fundraising events, net of direct expenses	113,580	22,211
	<u>13,559,504</u>	<u>12,549,317</u>
EXPENSES:		
Program services	11,777,025	11,356,786
Supporting services:		
Fundraising	214,711	257,419
General and administrative	1,837,401	2,075,930
	<u>2,052,112</u>	<u>2,333,349</u>
Total supporting services		
Total expenses	13,829,137	13,690,135
	<u>13,829,137</u>	<u>13,690,135</u>
(Deficiency) of revenues over expenses	(269,633)	(1,140,818)
NET UNREALIZED GAIN (LOSS) ON INVESTMENTS AND ASSETS LIMITED AS TO USE	155,357	(437,103)
NET ASSETS RELEASED FROM RESTRICTIONS	564,708	584,675
	<u>564,708</u>	<u>584,675</u>
Increase (decrease) in unrestricted net assets	450,432	(993,246)
	<u>450,432</u>	<u>(993,246)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and grants	405,871	368,864
Fundraising events, net of direct expenses	48,616	95,800
Net assets released from restrictions	(564,708)	(584,675)
(Decrease) in temporarily restricted net assets	(110,221)	(120,011)
	<u>(110,221)</u>	<u>(120,011)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Fundraising events, net of direct expenses	250	28,250
Increase in permanently restricted net assets	250	28,250
	<u>250</u>	<u>28,250</u>
NET CHANGE IN NET ASSETS	340,461	(1,085,007)
NET ASSETS, beginning of year	2,009,760	3,094,767
	<u>2,009,760</u>	<u>3,094,767</u>
NET ASSETS, end of year	\$ 2,350,221	\$ 2,009,760
	<u>2,350,221</u>	<u>2,009,760</u>

The accompanying notes are an integral part of the consolidated financial statements

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 340,461	\$ (1,085,007)
Adjustments to reconcile net change in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	180,867	209,601
Net realized loss (gain) on investments and assets limited as to use	69,030	(39,409)
Net unrealized (gain) loss on investments and assets limited as to use	(155,357)	437,103
Changes in assets and liabilities:		
(Increase) in patient accounts receivable, net	(23,443)	(107,316)
(Increase) in other receivables	(2,811)	(768)
(Increase) in prepaid expenses and other current assets	(40,123)	(79,419)
Increase (decrease) in accounts payable	23,064	(8,867)
(Decrease) increase in accrued expenses	<u>(378,820)</u>	<u>202,745</u>
Net cash and cash equivalents provided by (used in) operating activities	<u>12,868</u>	<u>(471,337)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and assets limited as to use	(250)	(71,800)
Proceeds from sale of investments and assets limited as to use	266,935	810,000
Interest and dividend reinvestment	(28,667)	(83,138)
Purchase of property and equipment	<u>(77,879)</u>	<u>(217,990)</u>
Net cash and cash equivalents provided by investing activities	<u>160,139</u>	<u>437,072</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on line of credit	(99,709)	-
Proceeds from line of credit	<u>-</u>	<u>99,709</u>
Net cash and cash equivalents (used in) provided by financing activities	<u>(99,709)</u>	<u>99,709</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	73,298	65,444
CASH AND CASH EQUIVALENTS, beginning	<u>609,640</u>	<u>544,196</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 682,938</u>	<u>\$ 609,640</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	<u>\$ 630</u>	<u>\$ 5,151</u>

The accompanying notes are an integral part of the consolidated financial statements

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Services	Supporting Services		Total
		Fundraising	General and Administrative	
Functional expenses:				
Conferences and meetings	\$ 4,901	\$ 485	\$ 10,805	\$ 16,191
Contracted services	400,149	-	37,196	437,345
Depreciation and amortization	162,780	3,617	14,470	180,867
Dues, subscriptions, and license fees	286	965	5,964	7,215
Employee benefits	780,836	8,716	90,085	879,637
Facility expenses	110,460	18,573	118,624	247,657
Insurance	80,356	1,744	6,975	89,075
Interest	-	-	630	630
Legal and accounting	-	-	43,970	43,970
Marketing	2,798	1,091	98,831	102,720
Medical supplies	814,035	-	1,414	815,449
Mileage	438,135	493	12,918	451,546
Miscellaneous fundraising expenses	-	11,772	-	11,772
Office expenses	370,996	6,806	37,016	414,818
Payroll taxes	588,147	9,869	79,730	677,746
Personnel recruitment	17,234	588	18,162	35,984
Postage and printing	37,731	12,476	16,914	67,121
Salaries	7,791,071	130,560	1,207,100	9,128,731
Telephone	160,896	3,546	19,547	183,989
Utilities	16,214	3,410	17,050	36,674
Total functional expenses	\$ <u>11,777,025</u>	\$ <u>214,711</u>	\$ <u>1,837,401</u>	\$ <u>13,829,137</u>

The accompanying notes are an integral part of the consolidated financial statements

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Program Services	Supporting Services		Total
		Fundraising	General and Administrative	
Functional expenses:				
Conferences and meetings	\$ 6,104	\$ 5,792	\$ 43,585	\$ 55,481
Contracted services	411,778	9,159	137,107	558,044
Depreciation and amortization	186,931	4,822	17,848	209,601
Dues, subscriptions, and license fees	2,592	267	15,185	18,044
Employee benefits	701,325	6,363	86,517	794,205
Facility expenses	137,219	7,948	123,674	268,841
Insurance	54,408	1,433	5,237	61,078
Interest	-	-	5,151	5,151
Legal and accounting	-	41	9,918	9,959
Marketing	9,237	3,261	89,918	102,416
Medical supplies	839,395	-	3,107	842,502
Mileage	598,722	402	10,310	609,434
Miscellaneous fundraising expenses	-	23,403	-	23,403
Office expenses	246,090	3,149	51,086	300,325
Payroll taxes	600,939	12,444	95,822	709,205
Personnel recruitment	18,273	194	17,988	36,455
Postage and printing	44,398	18,379	17,426	80,203
Salaries	7,334,340	154,866	1,316,938	8,806,144
Telephone	142,120	3,507	16,931	162,558
Utilities	22,915	1,989	12,182	37,086
Total functional expenses	<u>\$ 11,356,786</u>	<u>\$ 257,419</u>	<u>\$ 2,075,930</u>	<u>\$ 13,690,135</u>

The accompanying notes are an integral part of the consolidated financial statements

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Livingston Memorial VNA Health Corp. and Subsidiaries (a California non-profit corporation, collectively referred to as the "Association") include the accounts of Livingston Memorial Visiting Nurse Association (LMVNA) and Gold Coast Caregivers (GCCG). The entities are incorporated in California as 501(c)(3) not-for-profit corporations. They have identical Boards of Directors (collectively, the "Board").

The Association strives to provide a variety of home health services ranging from rehabilitation to infusion therapy to palliative care to hospice care of the highest quality in the most cost-effective manner to the residents of Ventura County, California. The Association also offers services to the community including support groups and education classes. LMVNA is licensed by the State of California, certified by Medicare and Medi-Cal, and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Codification (ASC)

Effective September 15, 2009, the Association adopted Financial Accounting Standards Board (FASB) ASC 105, *Generally Accepted Accounting Principles* (formerly Statement of Financial Accounting Standards (SFAS) No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of FASB Statement No. 162*"). FASB ASC 105 established the FASB ASC as the sole source of authoritative accounting principles recognized by the FASB to be applied by nonpublic entities in the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). As the FASB ASC was not intended to change or alter existing GAAP, the adoption of FASB ASC 105 did not have any impact on the Association's consolidated financial statements.

Basis of Presentation

The accompanying consolidated financial statements of the Association have been prepared using accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - Continued

The Association follows the provisions of FASB ASC 958-210-45-1, *Other Presentation Matters* (formerly SFAS No. 117, “*Financial Statements of Not-for-Profit Organizations*”), and FASB ASC 958-605-25, *Revenue Recognition* (formerly SFAS No. 116, “*Accounting for Contributions Received and Contributions Made*”).

Under FASB ASC 958-210-45-1, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Under FASB ASC 958-605-25, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

- Unrestricted net assets – Unrestricted net assets represent net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Association.
- Temporarily restricted net assets – Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met either by actions of the Association and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions. The amounts of temporarily restricted net assets as of December 31, 2009 and 2008 were \$59,879 and \$170,100, respectively.
- Permanently restricted net assets – Permanently restricted net assets include gifts and pledges which require, by donor restriction, that the corpus be invested in perpetuity, and only the income be made available for operations in accordance with donor restrictions. The amounts of permanently restricted net assets as of December 31, 2009 and 2008 were \$59,150 and \$58,900, respectively.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA)

As of December 31, 2009, the Association adopted FASB ASC 958-205 (formerly FASB Staff Position (FSP) 117-1, “*Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Fund.*”). This standard provides guidance on the net asset classification and reporting of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). It also improves disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA.

The UPMIFA was signed into law in California (CPMIFA) on September 30, 2008, and is applicable to institutional funds established, and to decisions made or actions taken with respect to existing institutional funds, on or after January 1, 2009. Adoption of FASB ASC 958-205 did not have a significant impact on the Association’s financial position or results of operations.

Net Patient Service Revenue

The Association has agreements with third-party payors that provide for payments to the Association at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. In the opinion of management, adequate provision has been made for such adjustments.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Patient Service Revenue - Continued

The Association derived approximately 71% and 72% of its net patient service revenues from Medicare during the years ended December 31, 2009 and 2008, respectively. Under the Prospective Payment System (PPS) for Medicare reimbursement, the Association estimates net revenues to be recorded based on a reimbursement rate, which is determined using relevant data, such as the severity of the patient's condition, service needs, and certain other factors, bundled into 60-day episodes of care. At the beginning of an episode of care, the Association submits a request for anticipated payment (RAP) for the initial percentage payment. The initial payment is 60% of the total PPS amount for new patients and 50% for on-going patients. At the end of the episode of care, the Association submits a request for the residual final payment. For payment differences between the estimated reimbursement and the final amount billed, the Association estimates the impact of such payment adjustments based on the historical experience and records this estimate during the period services are rendered as a contractual adjustment to revenue. As such, management believes the net balances as of December 31, 2009 and 2008 in the amount of \$597,872 and \$603,457; respectively, included in patient accounts receivable in the accompanying consolidated balance sheets accurately represents the amounts to be reimbursed by Medicare.

The Association also has entered into payment agreements with other third-party payors, including Medi-Cal, certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, as well as private payors. The basis for payment to the Association under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. No other payor accounted for 10% or more of the Association's total net patient service revenues during the years ended December 31, 2009 and 2008.

Public Support

Contributions are recognized as revenue when they are received or unconditionally pledged.

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

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Public Support - Continued

Public contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports them as unrestricted support.

Grant Income

The Association receives grant income through various city and state agencies, local companies, and non-profit organizations to support its mission and provide specific health care services. Grants are recorded and recognized in accordance with the contribution policy described above.

Subsidized Care

The Association has a policy of providing care to patients regardless of their ability to pay. Needed services are provided at reduced or no charge to indigent patients based upon the available resources of the Association. Since the Association does not expect full payment for such care, the estimated charges are recorded as a deduction from revenue.

Donated Goods and Services

Donated goods are recorded as in-kind contributions at their estimated fair values at the date of receipt. Additionally, a substantial number of volunteers have donated a significant amount of time to the Association's program services and fundraising events, which is considered valuable to the Association's overall effort of providing services.

During the years ended December 31, 2009 and 2008, the Association received approximately 3,345 and 1,928 volunteer hours for hospice; respectively, and 2,704 and 816 hours from the Board of Directors and other volunteers; respectively, who donated their time to the Association's programs and fundraising activities. These services have not been recorded in the consolidated financial statements since no objective basis is available to measure the value of such services.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

For purposes of the cash flows, the Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable

Patient accounts receivable and estimated third-party payor settlements are reported net of allowance for doubtful accounts. The Association has implemented a standardized approach to estimate and review the collectibility of its receivables based on accounts receivable aging trends. The Association analyzes historical collection trends, reimbursement experience, and revenue adjustment trends by third-party payors as an integral part of the estimation process related to determining the valuation allowance for accounts receivable. In addition, the Association assesses the current state of its billing functions on a monthly basis in order to identify any known collection or reimbursement issues to determine the impact, if any, on its reserve estimates, which involve judgment. Revisions in reserve estimates are recorded as an adjustment to the allowance for doubtful accounts.

Investments and Assets Limited as to Use

Investments and assets limited as to use include the endowment funds established by the Board of the Association at the Ventura County Community Foundation (VCCF) with the purpose of providing continuous support to the Association to carry out its role and mission as described in its Mission Statement, By-Laws, and Articles of Incorporation, as well as amounts contributed by donors with stipulated restrictions. Like all other funds held with the VCCF, the Association's funds are part of one large investment pool, which is allocated to 60.00% equities, 25.00% fixed income and 15.00% alternative investments.

In accordance with generally accepted accounting principles, investments are measured at fair value in the accompanying consolidated balance sheets based on the values provided by VCCF. Investment income or loss (including interest, dividends, realized gains or losses, and unrealized gains or losses on investments) is included in the accompanying consolidated statements of operations and changes in net assets.

Property and Equipment

Property and equipment are recorded at cost when purchased. Donated equipment is recorded at its estimated fair market value on the date received. Depreciation and amortization on all property and equipment is computed on the straight-line method over the economic useful life of each asset. Useful lives range from three to ten years.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment – Continued

Maintenance and repair costs are expensed as they are incurred, while renewals and improvements of a significant nature are capitalized. At the time of retirement or disposal of property and equipment, the cost and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected in the results of operations.

Impairment of Long-Lived Assets

The Association reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the assets to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2009 and 2008, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

Deficiency of Revenues over Expenses

The accompanying consolidated statements of operations and changes in net assets include deficiency of revenues over expenses. Changes in unrestricted net assets that are excluded from deficiency of revenues over expenses include net unrealized gains or losses on investments and assets limited as to use and net assets released from restrictions.

Functional Expenses

The costs of providing program services and other activities have been summarized on a functional basis in the consolidated statements of operations and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes

Livingston Memorial VNA Health Corp. and its subsidiaries are exempt from Federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and the corresponding provisions of the California Revenue and Taxation Code. These organizations are subject to Federal and California income tax on unrelated business income, if any, as stipulated in IRC Section 511.

While the Association is a tax exempt organization under Section 501(c)(3) of the IRC, income determined to be unrelated business income (UBI) would be taxable. The Association evaluates uncertain tax positions through its review of the sources of income to identify UBI and certain other matters, including those which may affect its tax exempt status. The effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimatable. As of December 31, 2009, the Association had no uncertain tax positions requiring accrual.

Fair Values of Financial Instruments

Substantially all of the financial instruments are carried at fair value or amounts approximating fair value. Cash and cash equivalents and investments and assets limited as to use are carried at market value. For patient accounts receivable, accounts payable, and other current assets and liabilities, the carrying amounts approximate fair value due to their short maturities.

The Association adopted FASB ASC 820, *Fair Value Measurement and Disclosure* (formerly SFAS No. 157, "*Fair Value Measurements*"). FASB ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and expands disclosures about fair value measurements. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

- Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.
- Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Valuations based on unobservable inputs reflecting the Association's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Values of Financial Instruments – Continued

The Association uses appropriate valuation techniques based on the available inputs to measure fair values of its investments. When available, the fair value is measured using Level 1 inputs because they generally provide the most reliable evidence of fair value. Adoption of FASB ASC 820 did not have a significant impact on the Association's financial position or results of operations.

The Association also adopted FASB ASC 825, *Financial Instruments* (formerly SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*"). ASC 825 provides an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Association adopted FASB ASC 825 without electing to report certain financial assets or liabilities at fair value that were not previously reported at fair value. Therefore, there was no impact to the Association's financial position or results of operations.

Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentration of credit risk consist primarily of cash and cash equivalents and patient accounts receivable. The Association maintains its cash and cash equivalents with a high credit quality financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, the financial institution holding the Association's cash accounts is participating in the FDIC's Transaction Account Guarantee Program (the "Program"). Under the Program, through June 30, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

With respect to patient accounts receivable, the Association performs ongoing evaluations of its customers and maintains reserves for potential credit losses. The Association does not require collateral for its services.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

In May 2009, the FASB issued ASC 855, *Subsequent Events* (formerly SFAS No. 165, “*Subsequent Events*”) to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. This statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the entity should recognize events occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. FASB ASC 855 was effective for the Association for the year ended December 31, 2009.

In preparing the accompanying consolidated financial statements, the events occurring between December 31, 2009 and May 4, 2010, the date these consolidated financial statements were available to be issued, were evaluated, and no material subsequent events that required recognition in these financial statements were noted.

Reclassifications

Certain reclassifications have been made to the 2008 consolidated financial statements to conform to 2009 presentation. Such reclassifications have no effect on changes in net assets as previously reported.

NOTE 3 - INVESTMENTS AND ASSETS LIMITED AS TO USE

A summary of the fair value of the investments and assets limited as to use is as follows at December 31:

	<u>2009</u>	<u>2008</u>
Money market funds	\$ -	\$ 11,320
Mutual funds – fixed income	-	163,616
Mutual funds – equity	-	118,718
Pooled investment funds	<u>857,321</u>	<u>715,358</u>
Total investments at fair market value	<u>\$ 857,321</u>	<u>\$ 1,009,012</u>

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS AND ASSETS LIMITED AS TO USE - CONTINUED

Net investment income (loss) is comprised of the following for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Dividend and interest income	\$ 28,667	\$ 83,138
Net realized (loss) gain	(52,492)	52,225
Net unrealized gain (loss)	<u>155,357</u>	<u>(437,103)</u>
	131,532	(301,740)
Less: investment expenses	<u>(16,538)</u>	<u>(12,816)</u>
Net investment income (loss)	<u>\$ 114,994</u>	<u>\$ (314,556)</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Computer equipment	\$ 1,705,845	\$ 1,631,532
Medical equipment	396,157	396,157
Communication equipment	70,890	70,890
Furniture and fixtures	82,082	78,517
Leasehold improvements	<u>75,544</u>	<u>75,544</u>
	2,330,518	2,252,640
Less: accumulated depreciation and amortization	<u>(2,117,675)</u>	<u>(1,936,809)</u>
Net property and equipment	<u>\$ 212,843</u>	<u>\$ 315,831</u>

Depreciation and amortization expense for the years ended December 31, 2009 and 2008 amounted to \$180,867 and \$209,601, respectively.

NOTE 5 - LINE OF CREDIT

The Association maintains a line of credit with a bank for working capital purposes. The line of credit permits indebtedness of up to \$250,000 and matured on July 6, 2009. The outstanding balance accrued interest at a rate of 0.50 percentage points over the Wall Street Journal Prime Rate (3.75% at December 31, 2008).

On July 9, 2009, the maturity date of the line of credit was extended to July 6, 2010. Also, the line of credit was amended to include 4.00% interest rate floor. All other terms remained the same. Interest rate at December 31, 2009 was 4.00%.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - LINE OF CREDIT – CONTINUED

At December 31, 2009, there was no amount outstanding under the line of credit. At December 31, 2008, the outstanding balance was \$99,709.

NOTE 6 - ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Accrued payroll and related expenses	\$ 166,843	\$ 499,932
Accrued paid time off	363,382	383,555
Other	<u>6,325</u>	<u>31,883</u>
Total	<u>\$ 536,550</u>	<u>\$ 915,370</u>

NOTE 7 - FUNDRAISING ACTIVITIES

Fundraising activities were as follows during the years ended December 31:

	<u>2009</u>	<u>2008</u>
Fundraising revenue:		
Contributions and grants:		
Unrestricted	\$ 313,464	\$ 167,939
Temporarily restricted	<u>405,871</u>	<u>368,864</u>
Total contributions and grants	719,335	536,803
Fundraising events, net of direct expenses of \$44,662 and \$151,449, respectively:		
Unrestricted	113,580	22,211
Temporarily restricted	48,616	95,800
Temporarily restricted	<u>250</u>	<u>28,250</u>
Total fundraising events, net	<u>162,446</u>	<u>146,261</u>
Total revenue – fundraising activities	<u>881,781</u>	<u>683,064</u>
Less: fundraising expenses	<u>(214,711)</u>	<u>(257,419)</u>
Fundraising activities, net	<u>\$ 667,070</u>	<u>\$ 425,645</u>

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - NET ASSETS

Board Designated Unrestricted Net Assets

The Livingston Memorial Visiting Nurse Association Endowment Fund (the “Fund”) was established at VCCF by the Board of the Association in 1996 with the funds contributed by the Association. Additional contributions were made to the Fund by the Association in the following years. Under the terms of the Fund agreement, which was established to protect the endowment, VCCF has variance power and is the legal owner of the Fund. VCCF can retain, invest, and reinvest the Fund in any manner within the “prudent person” standard and commingle the assets of the Fund with those of other funds for investment purposes.

The Association is the beneficiary of the Fund and receives distributions of earnings, subject to VCCF’s spending policy. Principal may be invaded only with the approval of two-thirds of the Association’s Board, the VCCF board, and if such funds be used only in accordance with the purpose of the Fund. At December 31, 2009 and 2008, the value of the Fund amounted to \$768,770 and \$642,627, respectively, including the balance of \$61,544 and \$39,002 available for distribution, respectively.

During the year ended December 31, 2008, the Association established another endowment fund with VCCF – Charles M. Hair, M.D. Endowment Fund (the “Dr. Hair Fund”). The original contribution to the Dr. Hair Fund of \$71,800 comprised of \$58,900 donor-designated permanently restricted contributions collected by the Association and \$12,900 Board-designated funds. The terms of the Dr. Hair Fund agreement are similar to the terms of the Fund as described above. At December 31, 2009 and 2008, the value of the Dr. Hair Fund amounted to \$88,551 and \$72,730; respectively, with no funds available for distribution.

In accordance with generally accepted accounting principles, fair values of both funds are reported as a liability by VCCF.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or are time restricted as follows at December 31:

	2009	2008
Subsidized care	\$ 40,879	\$ 118,200
Low income seniors	-	50,000
Nurse training	-	1,900
Wound care	19,000	-
	\$ 59,879	\$ 170,100

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - NET ASSETS – CONTINUED

Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at December 31:

	<u>2009</u>	<u>2008</u>
Charles M. Hair, M.D. Endowment Fund	\$ <u>59,150</u>	\$ <u>58,900</u>
	\$ <u>59,150</u>	\$ <u>58,900</u>

NOTE 9 - ENDOWMENT

The Association's endowment consists of two individual funds. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board has interpreted the CPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by the CPMIFA. In accordance with the CPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the Association and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Association, and
- The investment policies of the Association.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - ENDOWMENT - CONTINUED

Composition and Changes in Endowment Net Assets

Endowment net assets composition by type of fund is as follows at December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 59,150	\$ 59,150
Board-designated endowment fund	<u>798,171</u>	<u>-</u>	<u>-</u>	<u>798,171</u>
	<u>\$ 798,171</u>	<u>\$ -</u>	<u>\$ 59,150</u>	<u>\$ 857,321</u>

Changes in endowment net assets for the year ended December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 656,457	\$ -	\$ 58,900	\$ 715,357
Investment return:				
Investment income, net	4,774	678	-	5,452
Net appreciation (realized/unrealized)	<u>126,372</u>	<u>9,890</u>	<u>-</u>	<u>136,262</u>
Total investment return	131,146	10,568	-	141,714
Contributions	10,568	-	250	10,818
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(10,568)</u>	<u>-</u>	<u>(10,568)</u>
Endowment net assets, end of year	<u>\$ 798,171</u>	<u>\$ -</u>	<u>\$ 59,150</u>	<u>\$ 857,321</u>

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - ENDOWMENT - CONTINUED

Endowment Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Law requires the Association to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. For the year ended December 31, 2009, the Association did not have any deficiencies.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for the Fund that attempt to provide protection of principal and ensure reasonable growth of the principal of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board, the endowment funds are invested in a manner that is expected to produce total return on an annualized net-of-fees basis that equal or exceed an average annual real total return of at least 5% per year over a rolling five-year period. It is expected that the level of risk, as measured by the annualized standard deviation of quarterly returns, should be less than that of the custom index made up of 75% S&P 500 Index and 25% Barclays PLC Aggregate Bond Index.

Actual returns in any given year may vary from the expected returns.

Although the investment policy recognizes the importance of preserving capital, it also reflects that varying degrees of investment risk are generally rewarded with increased returns that compensate for additional risk. Additionally, risk greater than that of a stable long-term risk securities will be required to preserve the purchasing power of the Fund. It is appropriate to pursue riskier investment strategies if such strategies are in the beneficiaries' best interest. Risk management of the investment program is focused on understanding of the Fund's investment and operational risks. The objective is to minimize operational risks and achieve appropriate compensation for the investment risks the Fund undertakes.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - ENDOWMENT – CONTINUED

Strategies Employed for Achieving Objectives

To satisfy its long-term return objective, the endowment assets are managed on a total return basis. As asset allocation is the major determinant of investment performance, the Fund is allocated across a number of investment classes to provide diversification and achieve the Fund's investment objectives. As a general policy guideline, the target asset allocations for the Fund are 50% to domestic equities (both growth and value investments), 25% to fixed income investments, and 25% to international equities.

The asset allocation plan provides for diversification of assets in an effort to provide the highest probability of meeting or exceeding the portfolio's return objectives at the lowest possible risk. Due to the fluctuation of market values, allocations within a specified range constitute compliance with the policy.

Spending Policy and How the Investment Objectives Relate to Spending Policy

VCCF annually notifies the Association of the status of the Fund. The Association requests, subject to the Board's approval, that all or part of the eligible earnings, net of fees, be distributed to the Association and/or be added to the Fund principal in an effort to build the Fund. Amounts greater than the eligible earnings, net of fees, may be withdrawn (but in no event to exceed 25% of the value of the Fund in any one given year) as long as the following conditions are met:

- The Association requests such a distribution, subject to approval of two-thirds of the Association's Board;
- The Board of Directors of VCCF approves the request;
- Only principal and any additional gifts received directly from the Association and their pro rata earnings are subject to the withdrawal policy. Funds received by VCCF directly from donors for the Fund are not subject to distribution beyond annual payout, unless specified by the donors.

Consistent with this policy, the Association considered the long-term expected return on its endowment funds. Accordingly, over the long term, the Association expects the current spending policy to allow its endowment funds to grow, at a minimum, at a rate equal to an average annual real total return of at least 5%. This is consistent with the Association's objective to provide protection of principal and ensure reasonable growth of the principal of the endowment assets as well as to provide additional real growth through new gifts and investment return.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - FAIR VALUE

In accordance with generally accepted accounting principles, the following table sets forth by level, within the fair value hierarchy, the Association's assets measured at fair value on a recurring basis at December 31, 2009:

	Fair Value Measurement			
	<u>Level 1</u>	<u>Using Input Type</u>		<u>Total</u>
	<u>Level 2</u>	<u>Level 3</u>		
Pooled investment funds	\$ <u>646,420</u>	\$ <u>38,579</u>	\$ <u>172,322</u>	\$ <u>857,321</u>
	\$ <u>646,420</u>	\$ <u>38,579</u>	\$ <u>172,322</u>	\$ <u>857,321</u>

For assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2009, the reconciliation of beginning and ending balances is as follows:

Fair value at January 1, 2009	\$ 163,459
Purchases, sales, and transfers, net	11,338
Net (losses)	<u>(2,475)</u>
Fair value at December 31, 2009	\$ <u>172,322</u>

NOTE 11 - PENSION PLAN

The Association maintains a voluntary 403(b) pension plan (the "Plan") for the benefits of substantially all eligible employees. Employees may defer compensation up to the current IRC limits. Employer contributions to the Plan are at the discretion of the Association. For the years ended December 31, 2009 and 2008, the Association made no contributions to the Plan.

NOTE 12 - COMMITMENTS

Operating Leases

The Association leases various facilities under operating lease agreements that expire on various dates through February 2012 and require aggregate minimum monthly payments of approximately \$11,700. The Association also leases certain office equipment under operating lease agreement that expires in December 2013 and requires aggregate minimum monthly payments of approximately \$4,200. Real estate taxes, insurance, and maintenance expenses covering the leased facilities are obligations of the Association.

**LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - COMMITMENTS - CONTINUED

Operating Leases – Continued

Future minimum lease payments are as follows at December 31, 2009:

<u>Year Ending December 31,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2010	\$ 144,567	\$ 50,232	\$ 194,799
2011	148,001	50,232	198,233
2012	21,370	50,232	71,602
2013	<u>-</u>	<u>46,046</u>	<u>46,046</u>
Total	<u>\$ 313,938</u>	<u>\$ 196,742</u>	<u>\$ 510,680</u>

For the years ended December 31, 2009 and 2008, total facility and equipment rent expense under these operating lease agreements amounted to \$190,874 and \$141,068, respectively, and is included in facility expenses in the accompanying consolidated statements of functional expenses.

NOTE 13 - LEGAL MATTERS

The Association may, from time-to-time, be involved in litigation and regulatory investigations that arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of December 31, 2009, if any, will be resolved without material adverse effect to the Association's future financial position, results of operations, or cash flows.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
SUPPLEMENTAL INFORMATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2009

	<u>LMVNA</u>	<u>GCCG</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 674,686	\$ 8,252	\$ -	\$ 682,938
Patient accounts receivable, net	1,014,757	96,479	-	1,111,236
Other receivables	5,683	3,993	-	9,676
Prepaid expenses and other current assets	239,656	-	-	239,656
Due (to) from - intercompany	<u>512,732</u>	<u>-</u>	<u>(512,732)</u>	<u>-</u>
Total current assets	2,447,514	108,724	(512,732)	2,043,506
INVESTMENTS AND ASSETS LIMITED AS TO USE	857,321	-	-	857,321
PROPERTY AND EQUIPMENT, NET	<u>212,843</u>	<u>-</u>	<u>-</u>	<u>212,843</u>
Total assets	<u>\$ 3,517,678</u>	<u>\$ 108,724</u>	<u>\$ (512,732)</u>	<u>\$ 3,113,670</u>
CURRENT LIABILITIES:				
Accounts payable	\$ 212,445	\$ 14,454	\$ -	\$ 226,899
Accrued expenses	503,475	33,075	-	536,550
Due to (from) - intercompany	<u>-</u>	<u>512,732</u>	<u>(512,732)</u>	<u>-</u>
Total current liabilities	<u>715,920</u>	<u>560,261</u>	<u>(512,732)</u>	<u>763,449</u>
Total liabilities	<u>715,920</u>	<u>560,261</u>	<u>(512,732)</u>	<u>763,449</u>
COMMITMENTS AND CONTINGENCIES	-	-	-	-
NET ASSETS (DEFICIT):				
Unrestricted:				
General	1,895,866	(462,845)	-	1,433,021
Board designated	<u>798,171</u>	<u>-</u>	<u>-</u>	<u>798,171</u>
Total unrestricted	2,694,037	(462,845)	-	2,231,192
Temporarily restricted	48,571	11,308	-	59,879
Permanently restricted	<u>59,150</u>	<u>-</u>	<u>-</u>	<u>59,150</u>
Total net assets (deficit)	<u>2,801,758</u>	<u>(451,537)</u>	<u>-</u>	<u>2,350,221</u>
Total liabilities and net assets	<u>\$ 3,517,678</u>	<u>\$ 108,724</u>	<u>\$ (512,732)</u>	<u>\$ 3,113,670</u>

See independent auditors' report

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT ORGANIZATION)
SUPPLEMENTAL INFORMATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2008

	<u>LMVNA</u>	<u>GCCG</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 571,305	\$ 38,335	\$ -	\$ 609,640
Patient accounts receivable, net	1,012,268	75,525	-	1,087,793
Other receivables	1,500	5,365	-	6,865
Prepaid expenses and other current assets	199,533	-	-	199,533
Due (to) from - intercompany	<u>485,434</u>	<u>-</u>	<u>(485,434)</u>	<u>-</u>
Total current assets	2,270,040	119,225	(485,434)	1,903,831
INVESTMENTS AND ASSETS LIMITED AS TO USE	1,009,012	-	-	1,009,012
PROPERTY AND EQUIPMENT, NET	<u>315,831</u>	<u>-</u>	<u>-</u>	<u>315,831</u>
Total assets	<u>\$ 3,594,883</u>	<u>\$ 119,225</u>	<u>\$ (485,434)</u>	<u>\$ 3,228,674</u>
CURRENT LIABILITIES:				
Accounts payable	\$ 202,095	\$ 1,740	\$ -	\$ 203,835
Accrued expenses	853,856	61,514	-	915,370
Line of credit	99,709	-	-	99,709
Due to (from) - intercompany	<u>-</u>	<u>485,434</u>	<u>(485,434)</u>	<u>-</u>
Total current liabilities	<u>1,155,660</u>	<u>548,688</u>	<u>(485,434)</u>	<u>1,218,914</u>
Total liabilities	<u>1,155,660</u>	<u>548,688</u>	<u>(485,434)</u>	<u>1,218,914</u>
COMMITMENTS AND CONTINGENCIES	-	-	-	-
NET ASSETS (DEFICIT):				
Unrestricted:				
General	1,555,266	(430,963)	-	1,124,303
Board designated	<u>656,457</u>	<u>-</u>	<u>-</u>	<u>656,457</u>
Total unrestricted	2,211,723	(430,963)	-	1,780,760
Temporarily restricted	168,600	1,500	-	170,100
Permanently restricted	<u>58,900</u>	<u>-</u>	<u>-</u>	<u>58,900</u>
Total net assets (deficit)	<u>2,439,223</u>	<u>(429,463)</u>	<u>-</u>	<u>2,009,760</u>
Total liabilities and net assets	<u>\$ 3,594,883</u>	<u>\$ 119,225</u>	<u>\$ (485,434)</u>	<u>\$ 3,228,674</u>

See independent auditors' report

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
SUPPLEMENTAL INFORMATION
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>LMVNA</u>	<u>GCCG</u>	<u>Eliminations</u>	<u>Total</u>
CHANGES IN UNRESTRICTED NET ASSETS:				
REVENUE AND SUPPORT:				
Net patient service	\$ 12,059,336	\$ 1,113,487	\$ -	\$ 13,172,823
(Loss) income on investments and assets limited as to use, net of expenses of \$16,538	(40,389)	26	-	(40,363)
Contributions and grants	313,464	-	-	313,464
Fundraising events, net of direct expenses	113,580	-	-	113,580
Other income	49,200	-	(49,200)	-
	<u>12,495,191</u>	<u>1,113,513</u>	<u>(49,200)</u>	<u>13,559,504</u>
EXPENSES:				
Program services	10,837,965	939,060	-	11,777,025
Supporting services:				
Fundraising	214,711	-	-	214,711
General and administrative	1,642,428	244,173	(49,200)	1,837,401
	<u>1,857,139</u>	<u>244,173</u>	<u>(49,200)</u>	<u>2,052,112</u>
Total supporting services				
Total expenses	<u>12,695,104</u>	<u>1,183,233</u>	<u>(49,200)</u>	<u>13,829,137</u>
(Deficiency) of revenues over expenses	(199,913)	(69,720)	-	(269,633)
NET UNREALIZED GAIN ON INVESTMENTS AND ASSETS LIMITED AS TO USE	155,357	-	-	155,357
NET ASSETS RELEASED FROM RESTRICTIONS	<u>526,870</u>	<u>37,838</u>	<u>-</u>	<u>564,708</u>
Increase (decrease) in unrestricted net assets	<u>482,314</u>	<u>(31,882)</u>	<u>-</u>	<u>450,432</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions and grants	358,225	47,646	-	405,871
Fundraising events, net of direct expenses	48,616	-	-	48,616
Net assets released from restrictions	(526,870)	(37,838)	-	(564,708)
(Decrease) increase in temporarily restricted net assets	<u>(120,029)</u>	<u>9,808</u>	<u>-</u>	<u>(110,221)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:				
Fundraising events, net of direct expenses	250	-	-	250
Increase in permanently restricted net assets	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>
NET CHANGE IN NET ASSETS	362,535	(22,074)	-	340,461
NET ASSETS (DEFICIT), beginning of year	<u>2,439,223</u>	<u>(429,463)</u>	<u>-</u>	<u>2,009,760</u>
NET ASSETS (DEFICIT), end of year	<u>\$ 2,801,758</u>	<u>\$ (451,537)</u>	<u>\$ -</u>	<u>\$ 2,350,221</u>

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LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
SUPPLEMENTAL INFORMATION
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>LMVNA</u>	<u>GCCG</u>	<u>Eliminations</u>	<u>Total</u>
CHANGES IN UNRESTRICTED NET ASSETS:				
REVENUE AND SUPPORT:				
Net patient service	\$ 11,225,503	\$ 1,011,117	\$ -	\$ 12,236,620
Income on investments and assets limited as to use, net of expenses of \$12,816	122,512	35	-	122,547
Contributions and grants	167,349	590	-	167,939
Fundraising events, net of direct expenses	22,211	-	-	22,211
Other income	35,669	-	(35,669)	-
Total revenue and support	<u>11,573,244</u>	<u>1,011,742</u>	<u>(35,669)</u>	<u>12,549,317</u>
EXPENSES:				
Program services	10,457,187	899,599	-	11,356,786
Supporting services:				
Fundraising	257,419	-	-	257,419
General and administrative	1,889,640	221,959	(35,669)	2,075,930
Total supporting services	<u>2,147,059</u>	<u>221,959</u>	<u>(35,669)</u>	<u>2,333,349</u>
Total expenses	<u>12,604,246</u>	<u>1,121,558</u>	<u>(35,669)</u>	<u>13,690,135</u>
(Deficiency) of revenues over expenses	(1,031,002)	(109,816)	-	(1,140,818)
NET UNREALIZED (LOSS) ON INVESTMENTS AND ASSETS LIMITED AS TO USE	(437,103)	-	-	(437,103)
NET ASSETS RELEASED FROM RESTRICTIONS	518,062	66,613	-	584,675
(Decrease) in unrestricted net assets	<u>(950,043)</u>	<u>(43,203)</u>	<u>-</u>	<u>(993,246)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions and grants	312,404	56,460	-	368,864
Fundraising events, net of direct expenses	95,800	-	-	95,800
Net assets released from restrictions	(518,062)	(66,613)	-	(584,675)
(Decrease) in temporarily restricted net assets	<u>(109,858)</u>	<u>(10,153)</u>	<u>-</u>	<u>(120,011)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:				
Fundraising events, net of direct expenses	28,250	-	-	28,250
Increase in permanently restricted net assets	<u>28,250</u>	<u>-</u>	<u>-</u>	<u>28,250</u>
NET CHANGE IN NET ASSETS	(1,031,651)	(53,356)	-	(1,085,007)
NET ASSETS (DEFICIT), beginning of year	<u>3,470,874</u>	<u>(376,107)</u>	<u>-</u>	<u>3,094,767</u>
NET ASSETS (DEFICIT), end of year	<u>\$ 2,439,223</u>	<u>\$ (429,463)</u>	<u>\$ -</u>	<u>\$ 2,009,760</u>

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