

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

CONSOLIDATED FINANCIAL STATEMENTS

AND SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 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 statement of financial position of Livingston Memorial VNA Health Corp. and Subsidiaries, a California non-profit corporation, as of December 31, 2008, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

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

Our audit was made 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 audit 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

March 10, 2009

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

(A CALIFORNIA NON-PROFIT ORGANIZATION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2008

ASSETS:

Cash and cash equivalents	\$ 609,640
Patient accounts receivable, net of allowance for doubtful accounts of \$378,876	1,087,793
Other receivables	6,865
Prepaid expenses and other assets	199,533
Investments and assets limited as to use	1,009,012
Property and equipment, net	<u>315,831</u>

TOTAL ASSETS \$ 3,228,674

LIABILITIES AND NET ASSETS:

Accounts payable	\$ 203,835
Accrued expenses	915,370
Line of credit	<u>99,709</u>

Total liabilities 1,218,914

COMMITMENTS AND CONTINGENCIES -

NET ASSETS:

Unrestricted:	
General	1,124,303
Board designated	<u>656,457</u>
Total unrestricted	1,780,760
Temporarily restricted	170,100
Permanently restricted	<u>58,900</u>

Total net assets 2,009,760

TOTAL LIABILITIES AND NET ASSETS \$ 3,228,674

The accompanying notes are an integral part of the financial statements

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
DECEMBER 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT:				
Net patient service	\$ 12,236,620	\$ -	\$ -	\$ 12,236,620
(Loss) from investments and assets limited as to use	(314,556)	-	-	(314,556)
Contributions and grants	167,939	368,864	-	536,803
Fundraising, net of expenses	22,211	95,800	28,250	146,261
	<u>12,112,214</u>	<u>464,664</u>	<u>28,250</u>	<u>12,605,128</u>
NET ASSETS RELEASED FROM RESTRICTIONS:				
Satisfaction of program restrictions	584,675	(584,675)	-	-
Total net assets released from restrictions	<u>584,675</u>	<u>(584,675)</u>	<u>-</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	12,696,889	(120,011)	28,250	12,605,128
EXPENSES:				
Program services	11,356,786	-	-	11,356,786
Supporting services:				
Fundraising	257,419	-	-	257,419
General and administrative	2,075,930	-	-	2,075,930
	<u>2,333,349</u>	<u>-</u>	<u>-</u>	<u>2,333,349</u>
Total supporting services	<u>2,333,349</u>	<u>-</u>	<u>-</u>	<u>2,333,349</u>
Total expenses	<u>13,690,135</u>	<u>-</u>	<u>-</u>	<u>13,690,135</u>
NET CHANGE IN NET ASSETS	(993,246)	(120,011)	28,250	(1,085,007)
NET ASSETS, beginning of year	<u>2,774,006</u>	<u>290,111</u>	<u>30,650</u>	<u>3,094,767</u>
NET ASSETS, end of year	<u>\$ 1,780,760</u>	<u>\$ 170,100</u>	<u>\$ 58,900</u>	<u>\$ 2,009,760</u>

The accompanying notes are an integral part of the financial statements

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNA NON-PROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net change in net assets	\$ <u>(1,085,007)</u>
Adjustments to reconcile net change in net assets to cash and cash equivalents (used in) operating activities:	
Depreciation and amortization	209,601
Net realized (gain) on investments and assets limited as to use	(39,409)
Net unrealized loss on investments and assets limited as to use	437,103
Changes in assets and liabilities:	
(Increase) in patient accounts receivable, net	(107,316)
(Increase) in other receivable	(768)
(Increase) in prepaid expenses and other assets	(79,419)
(Decrease) in accounts payable	(8,867)
Increase in accrued expenses	<u>202,745</u>
Net cash and cash equivalents (used in) operating activities	<u>(471,337)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments and assets limited as to use	(71,800)
Proceeds from sale of investments and assets limited as to use	810,000
Interest and dividend reinvestment	(83,138)
Purchase of property and equipment	<u>(217,990)</u>
Net cash and cash equivalents provided by investing activities	<u>437,072</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from line of credit	<u>99,709</u>
Net cash and cash equivalents provided by financing activities	<u>99,709</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	65,444
CASH AND CASH EQUIVALENTS, beginning	<u>544,196</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 609,640</u></u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Cash paid during the year for:	
Interest	<u><u>\$ 5,151</u></u>

The accompanying notes are an integral part of the financial statements

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

(A CALIFORNIA NON-PROFIT ORGANIZATION)

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

DECEMBER 31, 2008

Functional expenses:	Program Services	Supporting Services		Total
		Fundraising	General and Administrative	
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
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
Rent	103,645	-	37,423	141,068
Repairs and Maintenance	33,574	7,948	86,251	127,773
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 financial statements

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A 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 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

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.

The Association has adopted Statement of Financial Accounting Standards (SFAS) No. 116, "*Accounting for Contributions Received and Contributions Made*," and SFAS No. 117, "*Financial Statements of Not-for-Profit Organizations*."

In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

In accordance with SFAS No. 117, 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.

- 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - Continued

- 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 on the accompanying financial statements as net assets released from restrictions.
- 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.

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.

The Association derived approximately 72% of its net patient service revenue from Medicare in 2008. 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, 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 balance of \$603,459 included in the accounts receivable in the accompanying consolidated balance sheet accurately represents the amount to be reimbursed by Medicare.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Patient Service Revenue - Continued

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

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 year ended December 31, 2008, the Association received approximately 1,928 volunteer hours for hospice and 816 hours from the Board of Directors and other volunteers 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.

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.

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 provision 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 Directors (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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments and Assets Limited as to Use

The Association accounts for all its investments in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." As such, investments are measured at fair value in the accompanying consolidated statement of financial position. Investment income or loss (including interest, dividends, realized gains or losses, and unrealized gains or losses on investments) is included in the accompanying consolidated statement of activities 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.

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 2008, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

Functional Expenses

The costs of providing program services and other activities have been summarized on a functional basis in the consolidated statement of activities 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 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 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 Internal Revenue Code Section 511.

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, investments, and assets limited as to use are carried at market value. For accounts receivable, accounts payable, and other current assets and liabilities, the carrying amounts approximate fair value due to their short maturities.

Effective January 1, 2008, the Association adopted SFAS No. 157, "*Fair Value Measurements*," except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FASB Staff Position (FSP) No. 157-2. SFAS No. 157 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:

- 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.

The adoption of SFAS No. 157 did not have a significant effect on the Association's consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Values of Financial Instruments – Continued

Also, in February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities.*" SFAS No. 159 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 SFAS No. 159 on January 1, 2008 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 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In August 2008, the FASB issued 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 Funds.*" FSP 117-1 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) and is expected to improve the quality and consistency of financial reporting of endowments held by such organizations. FSP 117-1 is effective for fiscal years ending after December 15, 2008.

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, 2008:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The underlying value of the investments, most of which are traded on national exchanges and in over-the-counter markets, is based on the last reported sales price on the last business day of the fiscal year.

Net investment (loss) is comprised of the following for the year ended December 31, 2008:

Dividend and interest income	\$ 83,138
Net realized gains	52,225
Net unrealized (losses)	<u>(437,103)</u>
	(301,740)
Less: investment expenses	<u>(12,816)</u>
Net investment (loss)	\$ <u>(314,556)</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2008:

Computer equipment	\$ 1,631,532
Medical equipment	396,157
Communication equipment	70,890
Furniture and fixtures	78,517
Leasehold improvements	<u>75,544</u>
	2,252,640
Less: accumulated depreciation and amortization	<u>(1,936,809)</u>
Net Property and equipment	\$ <u>315,831</u>

Depreciation and amortization expense for the year ended December 31, 2008 amounted to \$209,601.

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 matures on July 6, 2009. The outstanding balance accrues interest at a rate of 0.5 percentage points over the Wall Street Journal Prime Rate (4.5% at December 31, 2008). At December 31, 2008, the outstanding balance was \$99,709.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - ACCRUED EXPENSES

Accrued expenses as of December 31, 2008 consisted of the following:

Accrued payroll and related expenses	\$ 499,932
Accrued paid time off	383,555
Other	<u>31,883</u>
Total	\$ <u>915,370</u>

NOTE 7 - NET ASSETS

Board Designated Unrestricted Net Assets

The Livingston Memorial Visiting Nurse Association Endowment Fund (the "Fund") was established by the Board of the Association during the year ended December 31, 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, 2008, the value of the Fund amounted to \$642,627, including the balance of \$39,002 available for distribution.

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 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, 2008, the value of the Dr. Hair Fund amounted to \$72,730, with no funds available for distribution.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - NET ASSETS – CONTINUED

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or are time restricted as follows at December 31, 2008:

Subsidized care	\$ 118,200
Low income seniors	50,000
Nurse training	<u>1,900</u>
	\$ <u>170,100</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of the following at December 31, 2008:

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

NOTE 8 - 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 Internal Revenue Code limits. Employer contributions to the Plan are at the discretion of the Association. For the year ended December 31, 2008, the Association made no contributions to the Plan.

NOTE 9 - COMMITMENTS

Operating Leases

The Association leases various facilities under operating lease agreements that expire through December 2011 and require aggregate minimum monthly payments of approximately \$12,400. 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 NON-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - COMMITMENTS - CONTINUED

Operating Leases - Continued

Future minimum lease payments are as follows as of December 31, 2008:

<u>Year Ending</u> <u>December 31,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2009	\$ 148,429	\$ 50,232	\$ 198,661
2010	154,132	50,232	204,364
2011	44,342	50,232	94,574
2012	-	50,232	50,232
2013	-	46,046	46,046
	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>346,903</u>	\$ <u>246,974</u>	\$ <u>593,877</u>

For the year ended December 31, 2008, total facility and equipment rent expense under these arrangements amounted to \$141,068.

NOTE 10 - 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, 2008, 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 NON-PROFIT ORGANIZATION)

SUPPLEMENTAL INFORMATION

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2008

	VNA	Gold Coast	Eliminations	Total
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 assets	199,533	-	-	199,533
Investments and assets limited as to use	1,009,012	-	-	1,009,012
Property and equipment, net	315,831	-	-	315,831
TOTAL ASSETS	\$ 3,109,449	\$ 119,225	\$ -	\$ 3,228,674
LIABILITIES AND NET ASSETS:				
Accounts payable	\$ 202,095	\$ 1,740	\$ -	\$ 203,835
Accrued expenses	368,422	546,948	-	915,370
Line of credit	99,709	-	-	99,709
Total liabilities	670,226	548,688	-	1,218,914
COMMITMENTS AND CONTINGENCIES				
NET ASSETS:				
Unrestricted:				
General	1,555,266	(430,963)	-	1,124,303
Board designated	656,457	-	-	656,457
Total unrestricted	2,211,723	(430,963)	-	1,780,760
Temporarily restricted	168,600	1,500	-	170,100
Permanently restricted	58,900	-	-	58,900
Total net assets	2,439,223	(429,463)	-	2,009,760
TOTAL LIABILITIES AND NET ASSETS	\$ 3,109,449	\$ 119,225	\$ -	\$ 3,228,674

See independent auditors' report

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A NON-PROFIT ORGANIZATION)
SUPPLEMENTAL INFORMATION
CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
DECEMBER 31, 2008

	<u>VNA</u>	<u>Gold Coast</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT:				
Net patient service	\$ 11,225,503	\$ 1,011,117	\$ -	\$ 12,236,620
(Loss) from investments and assets limited as to use	(314,591)	35	-	(314,556)
Contributions and grants	479,753	57,050	-	536,803
Fundraising, net of expenses	146,261	-	-	146,261
Other income	35,669	-	(35,669)	-
	<u>11,572,595</u>	<u>1,068,202</u>	<u>(35,669)</u>	<u>12,605,128</u>
Total revenue and support				
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
	<u>2,147,059</u>	<u>221,959</u>	<u>(35,669)</u>	<u>2,333,349</u>
Total supporting services				
Total expenses	<u>12,604,246</u>	<u>1,121,558</u>	<u>(35,669)</u>	<u>13,690,135</u>
NET CHANGE IN NET ASSETS	(1,031,651)	(53,356)	-	(1,085,007)
NET ASSETS, beginning of year	<u>3,470,874</u>	<u>(376,107)</u>	<u>-</u>	<u>3,094,767</u>
NET ASSETS, end of year	<u>\$ 2,439,223</u>	<u>\$ (429,463)</u>	<u>\$ -</u>	<u>\$ 2,009,760</u>

See independent auditors' report