

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

CONSOLIDATED FINANCIAL STATEMENTS

AND SUPPLEMENTAL INFORMATION

DECEMBER 31, 2012 AND 2011

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Independent Auditors' Report

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



We have audited the accompanying consolidated financial statements of Livingston Memorial VNA Health Corp. and Subsidiaries, a California non-profit corporation, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Livingston Memorial VNA Health Corp. and Subsidiaries' preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information on pages 28 through 31 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Kellogg + Andelson

April 26, 2013

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|---|--------------|--------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,713,433 | \$ 869,842 |
| Patient accounts receivable, net | 1,264,953 | 1,462,496 |
| Other receivables | 51,828 | 76,161 |
| Prepaid expenses and other current assets | 346,526 | 215,784 |
| Total current assets | 3,376,740 | 2,624,283 |
| INVESTMENTS AND ASSETS LIMITED AS TO USE | 1,125,438 | 1,029,414 |
| PROPERTY AND EQUIPMENT, NET | 262,360 | 207,032 |
| Total assets | \$ 4,764,538 | \$ 3,860,729 |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 181,184 | \$ 215,794 |
| Accrued expenses | 855,641 | 805,720 |
| Total current liabilities | 1,036,825 | 1,021,514 |
| Total liabilities | 1,036,825 | 1,021,514 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| NET ASSETS: | | |
| Unrestricted: | | |
| General | 2,494,996 | 1,564,841 |
| Board designated | 822,017 | 727,520 |
| Total unrestricted | 3,317,013 | 2,292,361 |
| Temporarily restricted | 107,279 | 244,960 |
| Permanently restricted | 303,421 | 301,894 |
| Total net assets | 3,727,713 | 2,839,215 |
| Total liabilities and net assets | \$ 4,764,538 | \$ 3,860,729 |

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, 2012 AND 2011

| | 2012 | 2011 |
|---|---------------|---------------|
| CHANGES IN UNRESTRICTED NET ASSETS: | | |
| REVENUE AND SUPPORT: | | |
| Patient service revenue, net of contractual allowances and discounts | \$ 15,741,331 | \$ 14,107,250 |
| Provision for bad debts | (19,486) | (15,620) |
| Net patient service revenue | 15,721,845 | 14,091,630 |
| Income on investments and assets limited as to use, net of expenses of \$13,662 and \$10,430, respectively | 21,470 | 18,333 |
| Contributions and grants | 471,519 | 167,800 |
| Fundraising events, net of direct expenses | 36,702 | 116,768 |
| Other income | 5,119 | 3,535 |
| Net assets released from restrictions, used for operations | 633,306 | 853,551 |
| Total revenue and support | 16,889,961 | 15,251,617 |
| EXPENSES: | | |
| Program services | 13,459,898 | 12,826,961 |
| Supporting services: | | |
| Fundraising | 231,314 | 222,966 |
| General and administrative | 2,281,135 | 2,140,831 |
| Total supporting services | 2,512,449 | 2,363,797 |
| Total expenses | 15,972,347 | 15,190,758 |
| Excess of revenues over expenses | 917,614 | 60,859 |
| NET UNREALIZED GAIN (LOSS) ON INVESTMENTS AND ASSETS LIMITED AS TO USE | 107,038 | (49,614) |
| Increase in unrestricted net assets | 1,024,652 | 11,245 |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | | |
| Contributions and grants | 356,416 | 918,489 |
| Fundraising events, net of direct expenses | 139,209 | 46,986 |
| Net assets released from restrictions, used for operations | (633,306) | (853,551) |
| (Decrease) increase in temporarily restricted net assets | (137,681) | 111,924 |
| CHANGES IN PERMANENTLY RESTRICTED NET ASSETS: | | |
| Contributions and grants | - | 242,703 |
| Income on investments and assets limited as to use | 1,527 | 41 |
| Increase in permanently restricted net assets | 1,527 | 242,744 |
| NET CHANGE IN NET ASSETS | 888,498 | 365,913 |
| NET ASSETS, beginning of year | 2,839,215 | 2,473,302 |
| NET ASSETS, end of year | \$ 3,727,713 | \$ 2,839,215 |

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, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|----------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net change in net assets | \$ 888,498 | \$ 365,913 |
| Adjustments to reconcile net change in net assets to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 151,071 | 154,342 |
| Provision for bad debt | 19,486 | 15,620 |
| Net realized (gain) on investments and assets limited as to use | (2,673) | (2,341) |
| Net unrealized (gain) loss on investments and assets limited as to use | (107,038) | 49,614 |
| Decrease (increase) in patient accounts receivable | 178,057 | (238,987) |
| Decrease (increase) in other receivables | 24,333 | (42,217) |
| (Increase) decrease in prepaid expenses and other current assets | (130,742) | 33,447 |
| (Decrease) in accounts payable | (34,610) | (21,645) |
| Increase in accrued expenses | 49,921 | 206,784 |
| | <u>1,036,303</u> | <u>520,530</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments and assets limited as to use | - | (242,703) |
| Proceeds from sale of investments and assets limited as to use | 34,011 | 39,526 |
| Interest and dividend reinvestment | (20,324) | (16,033) |
| Purchase of property and equipment | (206,399) | (110,072) |
| | <u>(192,712)</u> | <u>(329,282)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 843,591 | 191,248 |
| CASH AND CASH EQUIVALENTS, beginning | <u>869,842</u> | <u>678,594</u> |
| CASH AND CASH EQUIVALENTS, ending | <u>\$ 1,713,433</u> | <u>\$ 869,842</u> |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

CASH PAID DURING THE YEAR FOR:

| | | |
|----------|---------------|-------------|
| Interest | \$ <u>611</u> | \$ <u>-</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, 2012

| | Program Services | Supporting Services | | Total |
|---------------------------------------|----------------------|---------------------|-------------------------------|----------------------|
| | | Fundraising | General and Administrative | |
| Functional expenses: | | | | |
| Conferences and meetings | \$ 3,965 | \$ 2,065 | \$ 29,371 | \$ 35,401 |
| Contracted services | 516,009 | - | 84,325 | 600,334 |
| Depreciation and amortization | 138,984 | 1,511 | 10,576 | 151,071 |
| Dues, subscriptions, and license fees | 2,726 | 661 | 8,801 | 12,188 |
| Employee benefits | 941,769 | 10,130 | 154,838 | 1,106,737 |
| Facility expenses | 132,424 | 6,653 | 152,489 | 291,566 |
| Insurance | 68,816 | 748 | 5,236 | 74,800 |
| Interest | - | - | 611 | 611 |
| Legal and accounting | - | - | 55,607 | 55,607 |
| Marketing | 8,567 | 1,252 | 93,515 | 103,334 |
| Medical supplies | 600,211 | - | 3,117 | 603,328 |
| Mileage | 527,676 | 377 | 15,870 | 543,923 |
| Miscellaneous fundraising expenses | - | 16,699 | - | 16,699 |
| Office expenses | 516,673 | 6,117 | 78,611 | 601,401 |
| Payroll taxes | 667,988 | 11,416 | 92,877 | 772,281 |
| Personnel recruitment | 7,283 | 77 | 19,121 | 26,481 |
| Postage and printing | 72,056 | 15,452 | 40,981 | 128,489 |
| Salaries | 9,032,579 | 152,807 | 1,403,094 | 10,588,480 |
| Telephone | 209,786 | 2,280 | 16,750 | 228,816 |
| Utilities | 12,386 | 3,069 | 15,345 | 30,800 |
| Total functional expenses | \$ <u>13,459,898</u> | \$ <u>231,314</u> | \$ <u>2,281,135</u> | \$ <u>15,972,347</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, 2011

| | Program Services | Supporting Services | | Total |
|---------------------------------------|----------------------|---------------------|-------------------------------|----------------------|
| | | Fundraising | General and Administrative | |
| Functional expenses: | | | | |
| Conferences and meetings | \$ 5,129 | \$ 1,550 | \$ 12,877 | \$ 19,556 |
| Contracted services | 521,011 | 845 | 75,912 | 597,768 |
| Depreciation and amortization | 141,997 | 1,543 | 10,802 | 154,342 |
| Dues, subscriptions, and license fees | 876 | 894 | 5,499 | 7,269 |
| Employee benefits | 876,019 | 9,019 | 142,885 | 1,027,923 |
| Facility expenses | 133,582 | 6,511 | 144,265 | 284,358 |
| Insurance | 76,568 | 832 | 5,825 | 83,225 |
| Legal and accounting | - | - | 48,304 | 48,304 |
| Marketing | 272 | 1,866 | 99,662 | 101,800 |
| Medical supplies | 632,802 | - | 2,292 | 635,094 |
| Mileage | 476,406 | 350 | 11,741 | 488,497 |
| Miscellaneous fundraising expenses | - | 19,892 | - | 19,892 |
| Office expenses | 460,783 | 4,179 | 64,574 | 529,536 |
| Payroll taxes | 636,909 | 10,534 | 94,821 | 742,264 |
| Personnel recruitment | 12,576 | 164 | 20,699 | 33,439 |
| Postage and printing | 56,002 | 16,901 | 29,150 | 102,053 |
| Salaries | 8,570,346 | 142,567 | 1,339,632 | 10,052,545 |
| Telephone | 211,049 | 2,304 | 16,866 | 230,219 |
| Utilities | 14,634 | 3,015 | 15,025 | 32,674 |
| Total functional expenses | <u>\$ 12,826,961</u> | <u>\$ 222,966</u> | <u>\$ 2,140,831</u> | <u>\$ 15,190,758</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 VNA Health Corp., Livingston Memorial Visiting Nurse Association (LMVNA), and Livingston Caregivers (LC), formerly Gold Coast Caregivers. 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 (TJC).

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 (GAAP). In accordance with GAAP, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

- 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.

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

- 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 Association follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*, which 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 UPMIFA. The UPMIFA was signed into law in California (CPMIFA) on September 30, 2008.

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. 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.

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.

**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

Patient Service Revenue – Continued

Patient service revenue, net of contractual allowances and discounts but before the provision for bad debts, recognized during the years ended December 31, 2012 and 2011 from these major payor sources, is as follows:

| | 2012 | 2011 |
|-------------------------------|---------------|---------------|
| Medicare | \$ 11,118,556 | \$ 9,888,092 |
| Medi-Cal | 763,529 | 723,644 |
| Other third party payors | 2,410,781 | 2,386,407 |
| Self-Pay | 1,448,465 | 1,109,107 |
| Total patient service revenue | \$ 15,741,331 | \$ 14,107,250 |

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.

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.

Charity 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.

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

Charity Care – Continued

Records are maintained to identify and monitor the level of charity care provided. For the years ended December 31, 2012 and 2011, unreimbursed costs foregone for charity care amounted to \$441,889 and \$394,471, respectively. For the years ended December 31, 2012 and 2011, charitable gifts received to offset costs amounted to \$320,260 and \$303,824, respectively. The Association measures charity care services based on direct and indirect costs.

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, 2012 and 2011, the Association received approximately 2,328 and 2,317 volunteer hours for hospice, respectively. Additionally, during the years ended December 31, 2012 and 2011, the Board of Directors and other volunteers donated approximately 2,704 hours of their time each year 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.

Patient Accounts Receivable

The Association receives payments for services rendered to patients from federal and state governments under the Medicare and Medi-Cal programs, privately sponsored managed care programs, and private payors. 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.

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

Patient Accounts Receivable - Continued

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 VCCF, the Association's funds are part of one large investment pool.

In accordance with GAAP, 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, and realized gains or losses) is included in the excess of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses, unless the investments are trading securities.

Investments in general are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with the investments and the level of uncertainty related to changes in the value of the investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the accompanying consolidated financial statements.

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 seven 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

In accordance with GAAP, the Association reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates an asset may not be recoverable, an impairment loss is recognized for the excess of the carrying amount over the fair value of an asset to be held and used or over the fair value less cost to sell an asset to be disposed. During the years ended December 31, 2012 and 2011, there were no events or changes in circumstances indicating that the carrying amount of any long-lived assets may not be recoverable.

Excess of Revenues over Expenses

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

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.

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, except to the extent of unrelated business taxable income (UBI) as defined by IRC.

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 - Continued

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 estimable. As of December 31, 2012 and 2011, the Association had no uncertain tax positions requiring accrual.

The Association files federal and California exempt organization returns. They are no longer subject to income tax examinations by taxing authorities for years before 2009 for the federal and 2008 for the state tax filings.

Fair Values of Financial Instruments

Financial instruments reported in the Association's consolidated balance sheets include cash and cash equivalents, patient accounts receivable, investments and assets limited as to use, and other assets and liabilities arising in the ordinary course of business. For cash and cash equivalents, patient accounts receivable, accounts payable, and other current assets and liabilities, the carrying amounts represent a reasonable estimate of the fair values due to their short-term maturity. Investments are reflected at estimated fair value in accordance with FASB ASC 820, *Fair Value Measurement and Disclosure*.

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value based on observable and unobservable data. The hierarchy categorizes the inputs into three levels, with the highest priority given to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority given to unobservable inputs (Level 3). The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Association uses appropriate valuation techniques based on the available inputs to measure fair value of its investments. When available, the Association measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

While the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement at the measurement date.

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 availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require transfer of financial instruments from one level to another. In such instances the transfer is reported at the end of the reporting period. There have been no changes in the valuation methodologies used at December 31, 2012 and 2011 to value the Association's assets at fair value.

Marketing

Marketing costs are expensed as incurred. Marketing costs for the years ended December 31, 2012 and 2011 amounted to \$103,334 and \$101,800, respectively.

Management Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets and liabilities and amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time made, actual results could differ materially from those estimates.

Concentrations of Credit of Risk

Financial instruments that potentially subject the Association to concentrations 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, all funds in noninterest-bearing transaction accounts are fully insured by the FDIC, regardless of the dollar amount through December 31, 2012.

The Association's concentration of credit risk related to accounts receivable is limited due to the diversity of patients and payors. The Association does not require collateral for its 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

Recently Adopted Accounting Guidance

In the normal course of business, the Association evaluates all new accounting pronouncements to determine the potential impact they may have on its consolidated financial statements. Based upon this review, the Association does not expect any of the recently issued accounting pronouncements, which have not already been adopted by the Association, to have a material impact on its consolidated financial statements.

Subsequent Events

In accordance with GAAP, the events occurring between December 31, 2012 and April 26, 2013, the date these consolidated financial statements were available to be issued, were evaluated, and no material subsequent events that required recognition in these consolidated financial statements were noted.

Reclassifications

Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the 2012 consolidated financial statement 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>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| VCCF pooled investment funds | \$ <u>1,125,438</u> | \$ <u>1,029,414</u> |
| Total investments at fair market value | \$ <u>1,125,438</u> | \$ <u>1,029,414</u> |

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

| | <u>2012</u> | <u>2011</u> |
|------------------------------|--------------------------|---------------------------|
| Dividend and interest income | \$ 20,324 | \$ 16,033 |
| Net realized gain | 16,335 | 12,771 |
| Net unrealized gain (loss) | <u>107,038</u> | <u>(49,614)</u> |
| | 143,697 | (20,810) |
| Less: investment expenses | <u>(13,662)</u> | <u>(10,430)</u> |
| Net investment income (loss) | \$ <u><u>130,035</u></u> | \$ <u><u>(31,240)</u></u> |

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

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Computer equipment | \$ 2,159,646 | \$ 1,994,841 |
| Medical equipment | 396,157 | 396,157 |
| Communication equipment | 74,399 | 73,599 |
| Furniture and fixtures | 137,125 | 96,335 |
| Leasehold improvements | <u>75,544</u> | <u>75,544</u> |
| | 2,842,871 | 2,636,476 |
| Less: accumulated depreciation and amortization | <u>(2,580,511)</u> | <u>(2,429,444)</u> |
| Property and equipment, net | <u>\$ 262,360</u> | <u>\$ 207,032</u> |

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 amounted to \$151,071 and \$154,342, 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 \$500,000 and matures on July 22, 2013. The outstanding balance accrues interest at bank's prime rate (4.00% at December 31, 2012). At December 31, 2012 and 2011, there was no amount outstanding under the line of credit.

NOTE 6 - ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31:

| | <u>2012</u> | <u>2011</u> |
|--------------------------------------|-------------------|-------------------|
| Accrued payroll and related expenses | \$ 313,813 | \$ 319,691 |
| Accrued paid time off | 529,359 | 476,314 |
| Other | <u>12,469</u> | <u>9,715</u> |
| Total | <u>\$ 855,641</u> | <u>\$ 805,720</u> |

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

NOTE 7 - FUNDRAISING ACTIVITIES

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

| | 2012 | 2011 |
|---|------------|--------------|
| Fundraising revenue: | | |
| Contributions and grants: | | |
| Unrestricted | \$ 471,519 | \$ 167,800 |
| Temporarily restricted | 356,416 | 918,489 |
| Permanently restricted | - | 242,703 |
| Total contributions and grants | 827,935 | 1,328,992 |
| Fundraising events, net of direct expenses of \$89,094 and \$26,052, respectively: | | |
| Unrestricted | 36,702 | 116,768 |
| Temporarily restricted | 139,209 | 46,986 |
| Permanently restricted | - | - |
| Total fundraising events, net | 175,911 | 163,754 |
| Total revenue – fundraising activities | 1,003,846 | 1,492,746 |
| Less: fundraising expenses | (231,314) | (222,966) |
| Fundraising activities, net | \$ 772,532 | \$ 1,269,780 |

NOTE 8 - FUNDS AT VENTURA COUNTY COMMUNITY FOUNDATION

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 and the VCCF board, and if approved, such funds can be used only in accordance with the purpose of the Fund. At December 31, 2012 and 2011, the value of the Fund amounted to \$757,858 and \$699,122, respectively, with no funds available for distribution.

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

NOTE 8 - FUNDS AT VENTURA COUNTY COMMUNITY FOUNDATION - CONTINUED

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, 2012 and 2011, the value of the Dr. Hair Fund amounted to \$93,511 and \$87,122; respectively, with no funds available for distribution.

During the year ended December 31, 2011, the Association established another endowment fund with VCCF – Raymond C. Huston and Dorothy L. Huston Memorial Endowment Fund (the Huston Memorial Fund). The original contribution to the Huston Memorial Fund was donor-designated permanently restricted contributions in the amount of \$242,703 received by the Association. In addition, 5% of the investment income is permanently restricted in accordance with the donor gift instrument. The remaining terms of the Huston Memorial Fund agreement are similar to the terms of the Fund as described above. At December 31, 2012 and 2011, the value of the Huston Memorial Fund amounted to \$274,069 and \$243,170; respectively, with no funds available for distribution.

In accordance with GAAP, fair values of the funds are reported as a liability by VCCF.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

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

| | 2012 | 2011 |
|------------------------|------------|------------|
| Subsidized care | \$ 22,279 | \$ 24,960 |
| Core operating support | 85,000 | 220,000 |
| | \$ 107,279 | \$ 244,960 |

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the donor-restricted purposes or time requirements as follows during the years ended December 31:

| | 2012 | 2011 |
|------------------------|------------|------------|
| Subsidized care | \$ 325,895 | \$ 295,295 |
| Core operating support | 307,411 | 558,256 |
| | \$ 633,306 | \$ 853,551 |

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

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

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

| | 2012 | 2011 |
|--|------------|------------|
| Charles M. Hair, M.D. Endowment Fund | \$ 59,150 | \$ 59,150 |
| Raymond C. Huston and Dorothy L. Huston Memorial Endowment Fund | 244,271 | 242,744 |
| | \$ 303,421 | \$ 301,894 |

NOTE 11 - ENDOWMENT

The Association's endowment consists of three 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 11 - ENDOWMENT - CONTINUED

Composition and Changes in Endowment Net Assets

Endowment net assets composition by type of fund is as follows at December 31, 2012:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 303,421 | \$ 303,421 |
| Board-designated endowment fund | <u>822,017</u> | <u>-</u> | <u>-</u> | <u>822,017</u> |
| | <u>\$ 822,017</u> | <u>\$ -</u> | <u>\$ 303,421</u> | <u>\$ 1,125,438</u> |

Changes in endowment net assets for the year ended December 31, 2012 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 727,520 | \$ - | \$ 301,894 | \$ 1,029,414 |
| Investment return: | | | | |
| Investment income, net | 13,582 | 5,215 | 1,527 | 20,324 |
| Net appreciation (realized/unrealized) | <u>86,091</u> | <u>23,620</u> | <u>-</u> | <u>109,711*</u> |
| Total investment return | 99,673 | 28,835 | 1,527 | 130,035 |
| Contributions | 28,835 | - | - | 28,835 |
| Appropriation of endowment assets for expenditure | <u>(34,011)</u> | <u>(28,835)</u> | <u>-</u> | <u>(62,846)</u> |
| Endowment net assets, end of year | <u>\$ 822,017</u> | <u>\$ -</u> | <u>\$ 303,421</u> | <u>\$ 1,125,438</u> |

*Net appreciation includes realized gain of \$16,335 and unrealized gain of \$107,038, net of investment expenses of \$13,662 (Note 3).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT - CONTINUED

Composition and Changes in Endowment Net Assets – Continued

Endowment net assets composition by type of fund is as follows at December 31, 2011:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 301,894 | \$ 301,894 |
| Board-designated endowment fund | <u>727,520</u> | <u>-</u> | <u>-</u> | <u>727,520</u> |
| | <u>\$ 727,520</u> | <u>\$ -</u> | <u>\$ 301,894</u> | <u>\$ 1,029,414</u> |

Changes in endowment net assets for the year ended December 31, 2011 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 798,327 | \$ - | \$ 59,150 | \$ 857,477 |
| Investment return: | | | | |
| Investment income, net | 13,682 | 2,310 | 41 | 16,033 |
| Net depreciation (realized/unrealized) | <u>(47,273)</u> | <u>-</u> | <u>-</u> | <u>(47,273)*</u> |
| Total investment return | (33,591) | 2,310 | 41 | (31,240) |
| Contributions | 2,310 | - | 242,703 | 245,013 |
| Appropriation of endowment assets for expenditure | <u>(39,526)</u> | <u>(2,310)</u> | <u>-</u> | <u>(41,836)</u> |
| Endowment net assets, end of year | <u>\$ 727,520</u> | <u>\$ -</u> | <u>\$ 301,894</u> | <u>\$ 1,029,414</u> |

*Net depreciation includes realized gain of \$12,771 and unrealized loss of (\$49,614), net of investment expenses of \$10,430 (Note 3).

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

NOTE 11 - 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. Such deficiencies could result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain programs as might be deemed prudent by the Board. For the years ended December 31, 2012 and 2011, the Association did not have any deficiencies.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for the endowment funds 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 equals or exceeds an average annual real total return of at least 5% per year over a rolling five-year period. Actual returns in any given year may vary from the expected returns.

Strategies Employed for Achieving Objectives

To satisfy its long-term return objective, the endowment assets are invested with VCCF and are part of one large investment portfolio (Notes 2 and 8). VCCF has adopted investment and spending policies that attempt to grow the portfolio in real, inflation-adjusted terms in order to meet annual fund distribution needs while preserving and enhancing purchasing power. As asset allocation is the major determinant of investment performance, the investment policy calls for a diversified portfolio utilizing various asset classes with a goal of reducing portfolio volatility and risk. VCCF expects its portfolio, over time, to provide an average rate of return that, over market cycles, exceeds annual distributions, fees, and inflation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT - CONTINUED

Spending Policy and How the Investment Objectives Relate to Spending Policy

Annual distribution policies are based upon a total return strategy that is intended to provide long term capital appreciation. VCCF annually notifies the Association of the status of the endowment funds. 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 endowment funds principal in an effort to build the endowment funds. 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;
- Only principal and any additional gifts received directly from the Association and their pro rata earnings are subject to the withdrawal policy. Endowment funds received by VCCF directly from donors for the endowment funds 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.

NOTE 12 - FAIR VALUE

In accordance with GAAP, the following tables set forth by level, within the fair value hierarchy, the Association's assets measured at fair value on a recurring basis at December 31, 2012 and 2011:

| | 2012 | | | |
|------------------------------|--|---|--|---------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| VCCF Pooled investment funds | \$ <u>787,119</u> | \$ <u>-</u> | \$ <u>338,319</u> | \$ <u>1,125,438</u> |
| | \$ <u>787,119</u> | \$ <u>-</u> | \$ <u>338,319</u> | \$ <u>1,125,438</u> |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - FAIR VALUE - CONTINUED

| | 2011 | | | Total |
|------------------------------|--|---|--|---------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| VCCF Pooled investment funds | \$ <u>717,606</u> | \$ <u>-</u> | \$ <u>311,808</u> | \$ <u>1,029,414</u> |
| | \$ <u>717,606</u> | \$ <u>-</u> | \$ <u>311,808</u> | \$ <u>1,029,414</u> |

For assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2012 and 2011, the reconciliation of beginning and ending balances is as follows:

| | 2012 VCCF Pooled investment funds - Alternative Investments | 2011 VCCF Pooled investment funds - Alternative Investments |
|-------------------------------|---|---|
| Fair value, beginning of year | \$ 311,808 | \$ 213,512 |
| Purchases | 24,921 | 88,792 |
| Sales | (22,564) | (31,948) |
| Net gains | <u>24,154</u> | <u>41,452</u> |
| Fair value, end of year | \$ <u>338,319</u> | \$ <u>311,808</u> |

*Alternative investments represent the Association's share in the VCCF investments in Hedge Funds and Private Capital Funds.

NOTE 13 - PENSION PLAN

The Association maintains a voluntary 403(b) pension plan (the Plan) for the benefit 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, 2012 and 2011, the Association made no contributions to the Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS

Operating Leases

The Association leases various facilities under operating lease agreements that expire on various dates through March 2017 and require aggregate minimum monthly payments of approximately \$15,300. The Association also leases certain office equipment under an operating lease agreement that expires in June 2017 and requires aggregate minimum monthly payments of approximately \$6,000. Real estate taxes, insurance, and maintenance expenses covering the leased facilities are obligations of the Association.

Future minimum lease payments are as follows at December 31, 2012:

| <u>Year Ending</u> <u>December 31,</u> | <u>Facilities</u> | <u>Equipment</u> | <u>Total</u> |
|---|-------------------|-------------------|---------------------|
| 2013 | \$ 187,533 | \$ 71,844 | \$ 259,377 |
| 2014 | 194,071 | 71,844 | 265,915 |
| 2015 | 177,951 | 71,844 | 249,795 |
| 2016 | 163,569 | 71,844 | 235,413 |
| 2017 | <u>41,289</u> | <u>35,922</u> | <u>77,211</u> |
| Total | <u>\$ 764,413</u> | <u>\$ 323,298</u> | <u>\$ 1,087,711</u> |

For the years ended December 31, 2012 and 2011, total facility and equipment rent expense under these operating lease agreements amounted to \$213,575 and \$203,964, respectively, and is included in facility expenses in the accompanying consolidated statements of functional expenses.

NOTE 15 - 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, 2012, if any, will be resolved without material adverse effect to the Association's future financial position, results of operations, or cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - THE HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT

The privacy provisions of the Health Insurance Portability and Accountability Act (HIPAA) were enacted on August 21, 1996 to assure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information.

Organizations were required to be in compliance with certain HIPAA provisions beginning October 2002. The privacy requirements became effective in April 2003, and the security requirements became effective in April 2005. The National Provider Identifier number became effective in May 2007. Additional privacy and security provisions were passed on February 17, 2009 with the American Recovery and Reinvestment Act (ARRA) for Long Term Care Public Law 111-5. The Health Information Technology for Economic and Clinical Health Act, passed as part of ARRA, implements the requirement for breach notification of unsecured protected health information.

The regulations were also expanded to include application and enforcement of HIPAA with business associates. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management believes that the Association is compliant with all applicable regulations in all material respects.

NOTE 17 - HEALTH CARE REFORM

In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law will result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate savings in the Medicare and state programs.

The Association is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law's complexity and current lack of implementing regulations or interpretive guidance. However, the Association expects that provisions of the Health Care Reform Legislation will have some effect on its business.

SUPPLEMENTAL CONSOLIDATING INFORMATION

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT CORPORATION)
SUPPLEMENTAL INFORMATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2012

| | <u>LMVNA</u> | <u>LC</u> | <u>Eliminations</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|---------------------|
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ 1,650,355 | \$ 63,078 | \$ - | \$ 1,713,433 |
| Patient accounts receivable, net | 1,143,419 | 121,534 | - | 1,264,953 |
| Other receivables | 51,828 | - | - | 51,828 |
| Prepaid expenses and other current assets | 346,526 | - | - | 346,526 |
| Due (to) from - intercompany | <u>266,754</u> | <u>-</u> | <u>(266,754)</u> | <u>-</u> |
| Total current assets | 3,458,882 | 184,612 | (266,754) | 3,376,740 |
| INVESTMENTS AND ASSETS LIMITED AS TO USE | 1,125,438 | - | - | 1,125,438 |
| PROPERTY AND EQUIPMENT, NET | <u>262,360</u> | <u>-</u> | <u>-</u> | <u>262,360</u> |
| Total assets | <u>\$ 4,846,680</u> | <u>\$ 184,612</u> | <u>\$ (266,754)</u> | <u>\$ 4,764,538</u> |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | \$ 180,866 | \$ 318 | \$ - | \$ 181,184 |
| Accrued expenses | 798,745 | 56,896 | - | 855,641 |
| Due to (from) - intercompany | <u>-</u> | <u>266,754</u> | <u>(266,754)</u> | <u>-</u> |
| Total current liabilities | <u>979,611</u> | <u>323,968</u> | <u>(266,754)</u> | <u>1,036,825</u> |
| Total liabilities | <u>979,611</u> | <u>323,968</u> | <u>(266,754)</u> | <u>1,036,825</u> |
| COMMITMENTS AND CONTINGENCIES | - | - | - | - |
| NET ASSETS (DEFICIT): | | | | |
| Unrestricted: | | | | |
| General | 2,641,880 | (146,884) | - | 2,494,996 |
| Board designated | <u>822,017</u> | <u>-</u> | <u>-</u> | <u>822,017</u> |
| Total unrestricted | 3,463,897 | (146,884) | - | 3,317,013 |
| Temporarily restricted | 99,751 | 7,528 | - | 107,279 |
| Permanently restricted | <u>303,421</u> | <u>-</u> | <u>-</u> | <u>303,421</u> |
| Total net assets (deficit) | <u>3,867,069</u> | <u>(139,356)</u> | <u>-</u> | <u>3,727,713</u> |
| Total liabilities and net assets | <u>\$ 4,846,680</u> | <u>\$ 184,612</u> | <u>\$ (266,754)</u> | <u>\$ 4,764,538</u> |

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LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
(A CALIFORNIA NON-PROFIT ORGANIZATION)
SUPPLEMENTAL INFORMATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2011

| | <u>LMVNA</u> | <u>LC</u> | <u>Eliminations</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|---------------------|
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ 802,561 | \$ 67,281 | \$ - | \$ 869,842 |
| Patient accounts receivable, net | 1,308,569 | 153,927 | - | 1,462,496 |
| Other receivables | 71,212 | 4,949 | - | 76,161 |
| Prepaid expenses and other current assets | 215,784 | - | - | 215,784 |
| Due (to) from - intercompany | <u>406,627</u> | <u>-</u> | <u>(406,627)</u> | <u>-</u> |
| Total current assets | 2,804,753 | 226,157 | (406,627) | 2,624,283 |
| INVESTMENTS AND ASSETS LIMITED AS TO USE | 1,029,414 | - | - | 1,029,414 |
| PROPERTY AND EQUIPMENT, NET | <u>207,032</u> | <u>-</u> | <u>-</u> | <u>207,032</u> |
| Total assets | <u>\$ 4,041,199</u> | <u>\$ 226,157</u> | <u>\$ (406,627)</u> | <u>\$ 3,860,729</u> |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | \$ 209,470 | \$ 6,324 | \$ - | \$ 215,794 |
| Accrued expenses | 747,406 | 58,314 | - | 805,720 |
| Due to (from) - intercompany | <u>-</u> | <u>406,627</u> | <u>(406,627)</u> | <u>-</u> |
| Total current liabilities | <u>956,876</u> | <u>471,265</u> | <u>(406,627)</u> | <u>1,021,514</u> |
| Total liabilities | <u>956,876</u> | <u>471,265</u> | <u>(406,627)</u> | <u>1,021,514</u> |
| COMMITMENTS AND CONTINGENCIES | - | - | - | - |
| NET ASSETS (DEFICIT): | | | | |
| Unrestricted: | | | | |
| General | 1,817,825 | (252,984) | - | 1,564,841 |
| Board designated | <u>727,520</u> | <u>-</u> | <u>-</u> | <u>727,520</u> |
| Total unrestricted | 2,545,345 | (252,984) | - | 2,292,361 |
| Temporarily restricted | 237,084 | 7,876 | - | 244,960 |
| Permanently restricted | <u>301,894</u> | <u>-</u> | <u>-</u> | <u>301,894</u> |
| Total net assets (deficit) | <u>3,084,323</u> | <u>(245,108)</u> | <u>-</u> | <u>2,839,215</u> |
| Total liabilities and net assets | <u>\$ 4,041,199</u> | <u>\$ 226,157</u> | <u>\$ (406,627)</u> | <u>\$ 3,860,729</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, 2012

| | <u>LMVNA</u> | <u>LC</u> | <u>Eliminations</u> | <u>Total</u> |
|--|-------------------------|-------------------------|---------------------|-------------------------|
| CHANGES IN UNRESTRICTED NET ASSETS: | | | | |
| REVENUE AND SUPPORT: | | | | |
| Patient service revenue, net of contractual allowances and discounts | \$ 14,273,383 | \$ 1,467,948 | \$ - | \$ 15,741,331 |
| Provision for bad debts | (19,486) | - | - | (19,486) |
| Net patient service revenue | <u>14,253,897</u> | <u>1,467,948</u> | <u>-</u> | <u>15,721,845</u> |
| Income on investments and assets limited as to use, net of expenses of \$13,662 | 21,470 | - | - | 21,470 |
| Contributions and grants | 471,519 | - | - | 471,519 |
| Fundraising events, net of direct expenses | 36,702 | - | - | 36,702 |
| Other income | 65,070 | 49 | (60,000) | 5,119 |
| Net assets released from restrictions, used for operations | <u>609,203</u> | <u>24,103</u> | <u>-</u> | <u>633,306</u> |
| Total revenue and support | <u>15,457,861</u> | <u>1,492,100</u> | <u>(60,000)</u> | <u>16,889,961</u> |
| EXPENSES: | | | | |
| Program services | 12,392,671 | 1,067,227 | - | 13,459,898 |
| Supporting services: | | | | |
| Fundraising | 231,314 | - | - | 231,314 |
| General and administrative | <u>2,022,361</u> | <u>318,774</u> | <u>(60,000)</u> | <u>2,281,135</u> |
| Total supporting services | <u>2,253,675</u> | <u>318,774</u> | <u>(60,000)</u> | <u>2,512,449</u> |
| Total expenses | <u>14,646,346</u> | <u>1,386,001</u> | <u>(60,000)</u> | <u>15,972,347</u> |
| Excess of revenues over expenses | 811,515 | 106,099 | - | 917,614 |
| NET UNREALIZED GAIN ON INVESTMENTS AND ASSETS LIMITED AS TO USE | | | | |
| | <u>107,038</u> | <u>-</u> | <u>-</u> | <u>107,038</u> |
| Increase in unrestricted net assets | <u>918,553</u> | <u>106,099</u> | <u>-</u> | <u>1,024,652</u> |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | | | | |
| Contributions and grants | 332,660 | 23,756 | - | 356,416 |
| Fundraising events, net of direct expenses | 139,209 | - | - | 139,209 |
| Net assets released from restrictions, used for operations | <u>(609,203)</u> | <u>(24,103)</u> | <u>-</u> | <u>(633,306)</u> |
| (Decrease) in temporarily restricted net assets | <u>(137,334)</u> | <u>(347)</u> | <u>-</u> | <u>(137,681)</u> |
| CHANGES IN PERMANENTLY RESTRICTED NET ASSETS: | | | | |
| Income on investments and assets limited as to use | <u>1,527</u> | <u>-</u> | <u>-</u> | <u>1,527</u> |
| Increase in permanently restricted net assets | <u>1,527</u> | <u>-</u> | <u>-</u> | <u>1,527</u> |
| NET CHANGE IN NET ASSETS | 782,746 | 105,752 | - | 888,498 |
| NET ASSETS (DEFICIT), beginning of year | <u>3,084,323</u> | <u>(245,108)</u> | <u>-</u> | <u>2,839,215</u> |
| NET ASSETS (DEFICIT), end of year | <u>\$ 3,867,069</u> | <u>\$ (139,356)</u> | <u>\$ -</u> | <u>\$ 3,727,713</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, 2011

| | <u>LMVNA</u> | <u>LC</u> | <u>Eliminations</u> | <u>Total</u> |
|--|-------------------------|-------------------------|---------------------|-------------------------|
| CHANGES IN UNRESTRICTED NET ASSETS: | | | | |
| REVENUE AND SUPPORT: | | | | |
| Patient service revenue, net of contractual allowances and discounts | \$ 12,847,178 | \$ 1,260,072 | \$ - | \$ 14,107,250 |
| Provision for bad debts | <u>(15,620)</u> | <u>-</u> | <u>-</u> | <u>(15,620)</u> |
| Net patient service revenue | 12,831,558 | 1,260,072 | - | 14,091,630 |
| Income on investments and assets limited as to use, net of expenses of \$10,430 | 18,333 | - | - | 18,333 |
| Contributions and grants | 167,800 | - | - | 167,800 |
| Fundraising events, net of direct expenses | 116,768 | - | - | 116,768 |
| Other income | 63,535 | - | (60,000) | 3,535 |
| Net assets released from restrictions, used for operations | <u>801,117</u> | <u>52,434</u> | <u>-</u> | <u>853,551</u> |
| Total revenue and support | <u>13,999,111</u> | <u>1,312,506</u> | <u>(60,000)</u> | <u>15,251,617</u> |
| EXPENSES: | | | | |
| Program services | 11,896,132 | 930,829 | - | 12,826,961 |
| Supporting services: | | | | |
| Fundraising | 222,966 | - | - | 222,966 |
| General and administrative | <u>1,911,854</u> | <u>288,977</u> | <u>(60,000)</u> | <u>2,140,831</u> |
| Total supporting services | <u>2,134,820</u> | <u>288,977</u> | <u>(60,000)</u> | <u>2,363,797</u> |
| Total expenses | <u>14,030,952</u> | <u>1,219,806</u> | <u>(60,000)</u> | <u>15,190,758</u> |
| (Deficiency) excess of revenues over expenses | (31,841) | 92,700 | - | 60,859 |
| NET UNREALIZED (LOSS) ON INVESTMENTS AND ASSETS LIMITED AS TO USE | <u>(49,614)</u> | <u>-</u> | <u>-</u> | <u>(49,614)</u> |
| (Decrease) increase in unrestricted net assets | <u>(81,455)</u> | <u>92,700</u> | <u>-</u> | <u>11,245</u> |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | | | | |
| Contributions and grants | 868,949 | 49,540 | - | 918,489 |
| Fundraising events, net of direct expenses | 46,986 | - | - | 46,986 |
| Net assets released from restrictions, used for operations | <u>(801,117)</u> | <u>(52,434)</u> | <u>-</u> | <u>(853,551)</u> |
| Increase (decrease) in temporarily restricted net assets | <u>114,818</u> | <u>(2,894)</u> | <u>-</u> | <u>111,924</u> |
| CHANGES IN PERMANENTLY RESTRICTED NET ASSETS: | | | | |
| Contributions and grants | 242,703 | - | - | 242,703 |
| Income on investments and assets limited as to use | <u>41</u> | <u>-</u> | <u>-</u> | <u>41</u> |
| Increase in permanently restricted net assets | <u>242,744</u> | <u>-</u> | <u>-</u> | <u>242,744</u> |
| NET CHANGE IN NET ASSETS | 276,107 | 89,806 | - | 365,913 |
| NET ASSETS (DEFICIT), beginning of year | <u>2,808,216</u> | <u>(334,914)</u> | <u>-</u> | <u>2,473,302</u> |
| NET ASSETS (DEFICIT), end of year | <u>\$ 3,084,323</u> | <u>\$ (245,108)</u> | <u>\$ -</u> | <u>\$ 2,839,215</u> |

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