

**LIVINGSTON MEMORIAL VNA
HEALTH CORP. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

AND SUPPLEMENTAL INFORMATION

DECEMBER 31, 2019 AND 2018

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Walters & Sklyar LLP

Independent Auditors' Report

To the Board of Directors of
Livingston Memorial VNA Health Corp.
and Subsidiaries
Ventura, California

We have audited the accompanying consolidated financial statements of Livingston Memorial VNA Health Corp. (a California not-for-profit corporation) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, 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 audit 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 entity's 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 entity's 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, 2019 and 2018, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, Livingston Memorial VNA Health Corp. and Subsidiaries adopted the new accounting guidance Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 29 through 32 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets, and cash flows of the individual companies, and it 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.

Walters & Sklyar LLP

Woodland Hills, California

May 4, 2020

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,050,524	\$ 1,721,226
Patient accounts receivable, net	1,450,769	1,538,762
Investments	261,059	607,682
Prepaid expenses and other current assets	166,658	251,961
Total current assets	3,929,010	4,119,631
 BENEFICIAL INTEREST IN NET ASSETS OF VCCF	 1,720,175	 1,958,316
 PROPERTY AND EQUIPMENT, NET	 276,861	 358,112
Total assets	\$ 5,926,046	\$ 6,436,059
 CURRENT LIABILITIES:		
Accounts payable	\$ 129,031	\$ 89,447
Accrued expenses	1,462,976	1,381,969
Total current liabilities	1,592,007	1,471,416
Total liabilities	1,592,007	1,471,416
 COMMITMENTS AND CONTINGENCIES	 -	 -
 NET ASSETS:		
Without donor restrictions	3,813,783	4,473,674
With donor restrictions	520,256	490,969
Total net assets	4,334,039	4,964,643
Total liabilities and net assets	\$ 5,926,046	\$ 6,436,059

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

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUE AND SUPPORT:		
Patient service revenue, net of contractual allowances and discounts	\$ 16,660,858	\$ 16,774,707
Provision for bad debts	-	(7,945)
Net patient service revenue	16,660,858	16,766,762
Income from investments	12,899	7,552
Income from beneficial interest in net assets of VCCF, net of expenses of \$33,223 and \$31,628, respectively	121,197	119,577
Contributions and grants	389,881	423,330
Fundraising events, net of direct expenses	118,958	174,026
Other revenues, net	1,890	23,523
Net assets released from restrictions, used for operations	787,104	757,705
Total revenue and support	18,092,787	18,272,475
EXPENSES:		
Program services	15,568,920	15,968,090
Supporting services:		
Fundraising	504,847	424,905
General and administrative	2,626,870	2,600,241
Total supporting services	3,131,717	3,025,146
Total expenses	18,700,637	18,993,236
(Deficiency) of revenues over expenses	(607,850)	(720,761)
NET UNREALIZED (LOSS) - BENEFICIAL INTEREST IN NET ASSETS OF VCCF	(52,041)	(69,052)
(Decrease) in net assets without donor restrictions	(659,891)	(789,813)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:		
Income from beneficial interest in net assets of VCCF	600	449
Contributions and grants	743,152	698,729
Fundraising events, net of direct expenses	72,639	64,762
Net assets released from restrictions, used for operations	(787,104)	(757,705)
Increase in net assets with donor restrictions	29,287	6,235
NET CHANGE IN NET ASSETS	(630,604)	(783,578)
NET ASSETS, beginning of year	4,964,643	5,748,221
NET ASSETS, end of year	\$ 4,334,039	\$ 4,964,643

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

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ (630,604)	\$ (783,578)
Adjustments to reconcile net change in net assets to net cash and cash equivalents (used in) operating activities:		
Depreciation and amortization	142,694	136,272
Provision for bad debts	-	7,945
Net realized (gain) on beneficial interest in net assets of VCCF	(88,453)	(87,454)
Net unrealized loss on beneficial interest in net assets of VCCF	52,041	69,052
Changes in assets and liabilities:		
Decrease in patient accounts receivable, net	87,993	203,059
Decrease (increase) in prepaid expenses and other current assets	85,303	(12,825)
Increase (decrease) in accounts payable	39,584	(107,107)
Increase in accrued expenses	<u>81,007</u>	<u>14,868</u>
Net cash and cash equivalents (used in) operating activities	<u>(230,435)</u>	<u>(559,768)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividend reinvestment - investments	(12,899)	(7,552)
Interest and dividend reinvestment - beneficial interest in net assets of VCCF	(33,344)	(32,572)
Sale of beneficial interest in net assets of VCCF, net	307,897	-
Sale of investments, net	359,522	102
Purchase of property and equipment	<u>(61,443)</u>	<u>(281,522)</u>
Net cash and cash equivalents provided by (used in) investing activities	<u>559,733</u>	<u>(321,544)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	329,298	(881,312)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,721,226</u>	<u>2,602,538</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 2,050,524</u></u>	<u><u>\$ 1,721,226</u></u>

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

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services				Supporting Services			Total
	Home Health Services	Hospice Services	Caregivers Services	Total Program Services	Fundraising	General and Administrative	Total Supporting Services	
Conferences and meetings	\$ 375	\$ 1,331	\$ -	\$ 1,706	\$ 4,415	\$ 4,775	\$ 9,190	\$ 10,896
Contracted services	178,801	1,115,179	-	1,293,980	1,960	170,366	172,326	1,466,306
Depreciation and amortization	81,335	49,943	-	131,278	1,427	9,989	11,416	142,694
Dues, subscriptions, and license fees	3,116	1,419	-	4,535	715	16,073	16,788	21,323
Employee benefits	630,558	418,886	92,690	1,142,134	103,419	182,566	285,985	1,428,119
Facility expenses	105,934	134,646	-	240,580	8,736	178,469	187,205	427,785
Insurance	82,977	50,951	-	133,928	1,456	10,191	11,647	145,575
Legal and accounting	2,903	3,378	-	6,281	-	68,689	68,689	74,970
Marketing	978	5,939	-	6,917	9,783	87,730	97,513	104,430
Medical supplies	123,607	404,344	-	527,951	-	2,692	2,692	530,643
Mileage	260,991	142,136	94,505	497,632	3,136	14,010	17,146	514,778
Miscellaneous fundraising expenses	-	-	-	-	29,983	-	29,983	29,983
Office expenses	260,879	221,294	-	482,173	10,245	48,955	59,200	541,373
Payroll taxes	445,758	235,651	60,207	741,616	18,972	100,609	119,581	861,197
Personnel recruitment	9,764	6,100	-	15,864	171	92,458	92,629	108,493
Postage and printing	24,537	13,836	-	38,373	28,252	27,031	55,283	93,656
Salaries	6,014,283	3,209,291	783,963	10,007,537	276,374	1,576,319	1,852,693	11,860,230
Telephone	171,094	108,249	-	279,343	2,832	21,093	23,925	303,268
Utilities	6,417	10,675	-	17,092	2,971	14,855	17,826	34,918
Total functional expenses	\$ 8,404,307	\$ 6,133,248	\$ 1,031,365	\$ 15,568,920	\$ 504,847	\$ 2,626,870	\$ 3,131,717	\$ 18,700,637

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

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services			Total
	Home Health Services	Hospice Services	Caregivers Services	Total Program Services	Fundraising	General and Administrative	Total Supporting Services	
Conferences and meetings	\$ 6,363	\$ 1,976	\$ -	\$ 8,339	\$ 3,498	\$ 10,628	\$ 14,126	\$ 22,465
Contracted services	444,570	1,045,296	-	1,489,866	40,790	135,597	176,387	1,666,253
Depreciation and amortization	77,674	47,695	-	125,369	1,363	9,540	10,903	136,272
Dues, subscriptions, and license fees	1,656	1,757	-	3,413	485	21,356	21,841	25,254
Employee benefits	672,551	412,735	94,334	1,179,620	68,240	206,039	274,279	1,453,899
Facility expenses	102,295	136,901	-	239,196	9,166	178,559	187,725	426,921
Insurance	78,050	47,925	-	125,975	1,369	9,888	11,257	137,232
Legal and accounting	-	2,343	-	2,343	50	61,684	61,734	64,077
Marketing	210	11,824	-	12,034	9,557	140,027	149,584	161,618
Medical supplies	66,068	400,562	-	466,630	-	2,057	2,057	468,687
Mileage	238,070	124,346	90,001	452,417	1,608	15,794	17,402	469,819
Miscellaneous fundraising expenses	-	-	-	-	11,373	-	11,373	11,373
Office expenses	334,039	260,329	-	594,368	11,443	52,722	64,165	658,533
Payroll taxes	462,503	239,474	49,225	751,202	14,736	101,196	115,932	867,134
Personnel recruitment	26,979	5,282	-	32,261	151	36,366	36,517	68,778
Postage and printing	25,812	19,955	-	45,767	33,734	27,309	61,043	106,810
Salaries	6,244,572	3,258,286	644,209	10,147,067	211,112	1,553,775	1,764,887	11,911,954
Telephone	168,684	105,222	-	273,906	2,796	20,534	23,330	297,236
Utilities	7,277	11,040	-	18,317	3,434	17,170	20,604	38,921
Total functional expenses	<u>\$ 8,957,373</u>	<u>\$ 6,132,948</u>	<u>\$ 877,769</u>	<u>\$ 15,968,090</u>	<u>\$ 424,905</u>	<u>\$ 2,600,241</u>	<u>\$ 3,025,146</u>	<u>\$ 18,993,236</u>

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

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Livingston Memorial VNA Health Corp. and Subsidiaries (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).

In April 2017, LMVNA obtained control of Camarillo Hospice Corporation (CH), an unrelated not-for-profit corporation, in a transaction accounted for as an acquisition. No consideration was transferred.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to improve the consistency of revenue recognition practices across industries for economically similar transactions. The core principle is that an entity recognizes revenue for goods or services to customers in an amount that reflects the consideration it expects to receive in return. The Association adopted the provisions of ASU 2014-09 effective January 1, 2019 using the modified retrospective approach. Under this method, the guidance is applied only to the most current period presented in the consolidated financial statements. The adoption of this new standard did not have a material impact on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The Association adopted the provisions of ASU 2016-14 upon its effectivity for the year ended December 31, 2018 and, accordingly, the presentation of consolidated financial statements and notes herein reflect such adoption.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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:

- Net assets without donor restrictions – Net assets without donor restrictions 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.
- Net assets with donor restrictions – Net assets with donor restrictions represent net assets subject to donor-imposed stipulations, which include (a) restrictions that may or will be met either by actions of the Association and/or the passage of time, and (b) stipulations that require the corpus to be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions. As restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

The Association follows the provisions of FASB Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*, as amended by ASU 2016-14, 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 adjusted in future periods as final settlements are determined.

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.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Patient Service Revenue – Continued

The Association adopted the provisions of ASU 2014-09 effective January 1, 2019 using the modified retrospective method of transition. The most significant change from the adoption of this new standard relates to the Association’s estimation of allowance for doubtful accounts. Under the previous standards, the Association’s estimate for amounts not expected to be collected based upon historical experience were reflected separately on the consolidated statements of operations and changes in net assets as provision for bad debts and deducted from patient service revenue. Under the new standard, majority of the provision for bad debts is considered an implicit price concession and will continue to be recognized as a reduction to patient service revenue but not reflected separately as provision for bad debts. Subsequent changes in the estimate of collectability due to an adverse change in the financial status or ability to pay of a payor will be recognized as bad debt expense.

The Association’s initial estimate of the transaction price subject to revenue recognition is determined by reducing the total standard charges for patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, retroactive adjustments, and other reductions to the Association’s standard charges. Transaction price associated with services provided to patients who have third-party payor coverage is determined on the basis of contractual or formula-driven rates for the services rendered. Estimates for implicit price concessions are based upon management’s assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private health care coverage and other collection indicators. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. As substantially all of the Association’s performance obligations relate to contracts with a duration of less than one year, the Association has elected to apply the optional exemption provided in ASU 2014-09 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as of December 31, 2019.

Net patient service revenue recognized during the years ended December 31, 2019 and 2018 from major payor sources is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 10,927,329	\$ 11,068,234
Medi-Cal	1,620,861	2,003,162
Other third-party payors	2,707,387	2,445,728
Self-Pay	<u>1,405,281</u>	<u>1,257,583</u>
Total patient service revenue	16,660,858	16,774,707
Less: provision for bad debts	<u>-</u>	<u>(7,945)</u>
Net patient service revenue	<u>\$ 16,660,858</u>	<u>\$ 16,766,762</u>

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

Records are maintained to identify and monitor the level of charity care provided. For the years ended December 31, 2019 and 2018, unreimbursed costs foregone for charity care amounted to \$389,955 and \$580,937, respectively. For the years ended December 31, 2019 and 2018, charitable gifts received to offset costs amounted to \$418,640 and \$397,833, 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.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Donated Goods and Services – Continued

The Association received approximately 1,900 and 1,500 volunteer hours for hospice during the years ended December 31, 2019 and 2018, respectively. Additionally, during each of the years ended December 31, 2019 and 2018, members of the Board and other volunteers donated approximately 4,800 hours of 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

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash, or that are convertible to cash on demand, and are subject to an insignificant risk of changes in fair value. These amounts are recorded at cost, which approximates fair value.

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 include charges for amounts due from patients less price concessions relating to allowances for the excess of established charges over the payments to be received on behalf of patients covered by Medicare, Medi-Cal and other insurers. 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 adequacy of price concessions and the valuation allowance for patient accounts receivable. As of December 31, 2019 and 2018, allowance for price concessions and doubtful accounts was \$412,259 and \$372,882, respectively.

Investments

Investments are measured at fair value in the consolidated balance sheets. Investment income or loss (including interest, dividends, realized gains or losses) is included in the (deficiency) of revenues over expenses unless the income is restricted by donor or law. Unrealized gains or losses on investments, if any, are excluded from the (deficiency) of revenues over expenses, unless the investments are trading securities.

Beneficial Interest in Net Assets of Ventura County Community Foundation (VCCF)

The beneficial interest in net assets of VCCF consists of the endowment funds established by the Board of the Association at 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. They also include amounts contributed by donors with stipulated restrictions.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Beneficial Interest in Net Assets of Ventura County Community Foundation (VCCF) – Continued

Like all other funds held with VCCF, the Association's funds are part of one large investment pool. The Association may draw up to a certain percent of the value of the funds each year, subject to certain conditions and limitations, but may only obtain a return of the full value of the assets upon consent of VCCF.

The Association's beneficial interest in net assets of VCCF is 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, net of expenses) is included in the (deficiency) of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses are excluded from the (deficiency) of revenues over expenses. Additionally, donors have also contributed funds for the benefit of the Association directly to VCCF. The Association is precluded from recognizing these assets in its consolidated balance sheets and only reports the distribution of income from these funds by VCCF as contributions.

Amounts invested in VCCF's pooled investment funds are exposed to a variety of uncertainties, including interest rate, market, and credit risks. Due to the level of risk associated with certain investments in the pooled funds, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the Association's consolidated financial statements.

Property and Equipment

Property and equipment are recorded at cost when purchased. Donated equipment is recorded at its estimated fair 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.

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 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, 2019 and 2018, there were no events or changes in circumstances indicating that the carrying amount of any long-lived assets may not be recoverable.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Consolidated Statements of Operations

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services as well as fulfilling the overall mission of the Association are reported as revenues and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

(Deficiency) of Revenues over Expenses

The accompanying consolidated statements of operations and changes in net assets include (deficiency) of revenues over expenses. Changes in unrestricted net assets that are excluded from (deficiency) of revenues over expenses include net unrealized gains or losses on the Association's beneficial interest in net assets of VCCF.

Functional Expenses

The costs of providing program activities or supporting services have been summarized on a functional basis in the consolidated financial statements. Expenses that are specifically associated with a program activity or supporting service are allocated to that activity. Expenses that are attributable to more than one program or supporting function are allocated by management based on estimates of time, effort, and actual benefits provided.

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 (UBTI) as defined by the IRC.

The Association evaluates uncertain tax positions through its review of the sources of income to identify UBTI 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 could be reasonably estimated. As of December 31, 2019 and 2018, 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 2016 for the federal and 2015 for the state tax filings.

Fair Value of Financial Instruments

For certain financial instruments reported in the Association's consolidated balance sheets including cash and cash equivalents, patient accounts receivable, and other current assets and liabilities, the carrying amounts represent a reasonable estimate of the fair values due to their short-term maturity. Investments and beneficial interest in net assets of VCCF are reflected at estimated fair values in accordance with FASB ASC 820, *Fair Value Measurements and Disclosure*.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value of Financial Instruments – Continued

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. 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.

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 transfers between the levels of input during the years ended December 31, 2019 and 2018.

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 Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist primarily of cash and cash equivalents, patient accounts receivable, and investments. The Association maintains its cash and cash equivalents with high credit quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The Association's concentration of credit risk related to patient 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Concentrations of Credit Risk – Continued

Investments in general are exposed to various risks, such as interest rate, credit, and overall market volatility. 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 value in the near term could materially affect investment balances and the amounts reported in the accompanying consolidated financial statements. Certificates of Deposits (CDs) included in investments are insured by the FDIC up to \$250,000.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2019 and 2018, advertising costs were insignificant.

Merger and Acquisition

The Association follows the authoritative guidance for not-for-profit entities regarding mergers and acquisitions, which defines a combination of one or more not-for-profit entities, business, or non-profit activities as either a merger or an acquisition. The guidance also establishes principles and requirements in determining whether a not-for-profit entity combination is a merger or acquisition, applies the carryover method in accounting for mergers, applies the acquisition method in accounting for acquisitions, and requires enhanced disclosures about the merger or acquisition.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. Upon adoption of ASU 2016-02, the operating leases disclosed in Note 13 – Commitments will be reported on the consolidated balance sheets as gross-up assets and liabilities. In November 2019, the FASB issued ASU 2019-10 deferring the effective date of ASU 2016-02 to annual reporting periods beginning after December 15, 2020. Early adoption is permitted. The Association is currently evaluating the impact that this guidance will have on its consolidated balance sheets or consolidated financial statement disclosures.

The Association reviewed all other significant newly-issued accounting pronouncements and concluded that they either are not applicable to its operations or that no material effect is expected on its consolidated financial statements as a result of future adoption.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 consolidated financial statement presentation. Such reclassifications have no effect on changes in net assets as previously reported.

Subsequent Events

The Association evaluated events occurring between December 31, 2019 and May 4, 2020, the date these consolidated financial statements were available to be issued, and determined that there were no material subsequent events that required recognition or disclosure in these consolidated financial statements, except as noted below.

The recent Coronavirus outbreak (COVID-19), which was designated as a pandemic by the World Health Organization on March 11, 2020, continues to spread both in the United States and globally, and related government and private sector responsive actions may adversely affect the Association's business operations, employee availability, financial condition, liquidity, and cash flows. At this time, it is impossible to predict the ultimate impact of the COVID-19 pandemic as the situation is rapidly evolving.

NOTE 3 - INVESTMENTS

As of December 31, 2019 and 2018, investments consisted primarily of money market funds and short-term CDs with original maturities of more than three months, which are stated at fair value based upon quoted market prices (Level 1). Investments amounted to \$261,059 and \$607,682 as of December 31, 2019 and 2018, respectively.

Income from investments consisted of interest and dividends income of \$12,899 and \$7,552 for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Computer equipment	\$ 2,888,042	\$ 2,863,387
Medical equipment	401,804	401,804
Communication equipment	111,187	74,399
Furniture and fixtures	288,306	288,306
Leasehold improvements	<u>225,628</u>	<u>225,628</u>
	3,914,967	3,853,524
Less: accumulated depreciation and amortization	<u>(3,638,106)</u>	<u>(3,495,412)</u>
Property and equipment, net	<u>\$ 276,861</u>	<u>\$ 358,112</u>

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT – CONTINUED

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 amounted to \$142,694 and \$136,272, 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 \$750,000 and matures on July 22, 2020. The outstanding balance accrues interest at the bank’s prime rate. At December 31, 2019 and 2018, there was no amount outstanding under the line of credit.

NOTE 6 - ACCRUED EXPENSES

Accrued expenses consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Accrued payroll and related expenses	\$ 707,779	\$ 708,282
Accrued paid time off	701,610	653,350
Other	<u>53,587</u>	<u>20,337</u>
Total accrued expenses	\$ <u>1,462,976</u>	\$ <u>1,381,969</u>

NOTE 7 - FUNDRAISING ACTIVITIES

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

	<u>2019</u>	<u>2018</u>
Fundraising revenue:		
Contributions and grants:		
Without donor restrictions	\$ 389,881	\$ 423,330
With donor restrictions	<u>743,152</u>	<u>698,729</u>
Total contributions and grants	<u>1,133,033</u>	<u>1,122,059</u>
Fundraising events, net of direct expenses of \$72,228 and \$73,430, respectively:		
Without donor restrictions	118,958	174,026
With donor restrictions	<u>72,639</u>	<u>64,762</u>
Total fundraising events, net	<u>191,597</u>	<u>238,788</u>
Total revenue – fundraising activities	1,324,630	1,360,847
Less: fundraising expenses	<u>(504,847)</u>	<u>(424,905)</u>
Fundraising activities, net	\$ <u>819,783</u>	\$ <u>935,942</u>

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - FUNDS HELD BY VENTURA COUNTY COMMUNITY FOUNDATION

The Livingston Memorial Visiting Nurse Association Endowment Fund (the Fund) was established at VCCF by the Association's Board in 1996 with the funds contributed by the Association. Additional contributions were made to the Fund by the Association in the following years. The Association's Board periodically reviews bequests received for inclusion in the Fund. 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 VCCF's Board, and if approved, such funds can be used only in accordance with the purpose of the Fund. Distributions from this fund amounted to \$222,196 for the year ended December 31, 2019. There were no distributions from this fund during the year ended December 31, 2018. At December 31, 2019 and 2018, the value of the Fund amounted to \$1,143,387 and \$1,319,197, respectively. Amounts available for distribution from this fund at December 31, 2019 and 2018 were \$60,607 and \$59,677, respectively.

During the year ended December 31, 2008, the Association established another endowment fund with VCCF – Charles M. Hair, M.D. Endowment Fund (the Dr. Hair Fund). The original contribution to the Dr. Hair Fund of \$71,800 was comprised of \$58,900 of donor-designated permanently restricted contributions collected by the Association and \$12,900 of Board-designated funds. The terms of the Dr. Hair Fund agreement are similar to the terms of the Fund as described above. Distributions from this fund amounted to \$20,621 for the year ended December 31, 2019. There were no distributions from this fund during the year ended December 31, 2018. At December 31, 2019 and 2018, the value of the Dr. Hair Fund amounted to \$102,335 and \$117,323, respectively. Amounts available for distribution from this fund at December 31, 2019 and 2018 were \$5,412 and \$5,337, respectively.

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. Distributions from this fund amounted to \$60,473 for the year ended December 31, 2019. There were no distributions from this fund during the year ended December 31, 2018. At December 31, 2019 and 2018, the value of the Huston Memorial Fund amounted to \$295,991 and \$344,457, respectively. Amounts available for distribution from this fund at December 31, 2019 and 2018 were \$15,883 and \$15,670, respectively.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - FUNDS HELD BY VENTURA COUNTY COMMUNITY FOUNDATION – CONTINUED

As part of the acquisition of CH in 2017, the Association recorded another endowment fund with VCCF – Camarillo Hospice Endowment Fund (the CH Fund). At the date of acquisition, value of the CH Fund was \$22,822 and additional contributions were made in the following months of 2017, including a \$131,304 transfer of donor-designated permanently restricted funds previously collected by CH. The terms of the CH Fund agreement are similar to the terms of the Fund as described above. Distributions from this fund amounted to \$6,131 for the year ended December 31, 2019. There were no distributions from this fund during the year ended December 31, 2018. At December 31, 2019 and 2018, the value of the CH Fund amounted to \$178,462 and \$177,339, respectively. Amounts available for distribution from this fund at December 31, 2019 and 2018 were \$5,453 and \$4,326, respectively.

Fair values of the aforementioned funds are reported as a liability by VCCF.

In addition, the Lisagor family has established the Lisagor Family Fund directly at VCCF for the benefit of the Association. In accordance with GAAP, this fund is not included in the Association’s beneficial interest in net assets of VCCF in the accompanying consolidated balance sheets. There were no distributions from this fund during the years ended December 31, 2019 and 2018.

The fair value of the funds representing the cumulative amount of the Association’s beneficial interest in net assets of VCCF is determined using Level 3 inputs based upon the Association’s proportionate share of VCCF’s pooled investment portfolio, as reported by VCCF at year-end.

The following table presents a rollforward of activity for funds held by VCCF at fair value using significant unobservable inputs (Level 3) for the years ended December 31:

	2019 VCCF Pooled <u>Investment Funds</u>	2018 VCCF Pooled <u>Investment Funds</u>
Fair value, beginning of year	\$ 1,958,316	\$ 1,907,342
Contributions/transfers in	1,524	-
Distributions/transfers out	(309,421)	-
Interest and dividends	33,344	32,572
Net realized gains	121,676	119,082
Net unrealized (loss)	(52,041)	(69,052)
Investment expenses	<u>(33,223)</u>	<u>(31,628)</u>
Fair value, end of year	\$ <u>1,720,175</u>	\$ <u>1,958,316</u>

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - BOARD DESIGNATION

The Board has designated (from net assets without donor restrictions of \$3,813,783 and \$4,473,674 as of December 31, 2019 and 2018, respectively) net assets as quasi-endowment, which is managed in accordance with the Association's investment and spending policies applicable to endowment funds. As of December 31, 2019 and 2018, Board-designated endowment fund amounted to \$1,269,560 and \$1,508,300, respectively.

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
<u>Subject to expenditure for specified purpose:</u>		
Subsidized care	\$ <u>69,640</u>	\$ <u>40,953</u>
	<u>69,640</u>	<u>40,953</u>
<u>Subject to spending policy and appropriation (investments in perpetuity):</u>		
Livingston Memorial Visiting Nurse Association Endowment Fund	10,020	10,020
Charles M. Hair, M.D. Endowment Fund	59,150	59,150
Raymond C. Huston and Dorothy L. Huston Memorial Endowment Fund	250,142	249,542
Camarillo Hospice Endowment Fund	<u>131,304</u>	<u>131,304</u>
	<u>450,616</u>	<u>450,016</u>
Total net assets with donor restrictions	\$ <u><u>520,256</u></u>	\$ <u><u>490,969</u></u>

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:

	<u>2019</u>	<u>2018</u>
Subsidized care	\$ 389,954	\$ 384,273
CH bereavement services	270,117	261,440
Direct support	10,000	9,303
Home health and various support	10,116	215
Hospice support	<u>106,917</u>	<u>102,474</u>
	\$ <u><u>787,104</u></u>	\$ <u><u>757,705</u></u>

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT

The Association's endowment consists of four 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 net assets with donor restrictions (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.

Remaining portion of the donor-restricted endowment fund that is not accumulated in the permanent endowment is reclassified as net assets without donor restrictions upon appropriation of those amounts 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.

Composition and Changes in Endowment Net Assets

Endowment net assets composition by type of fund is as follows at December 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 450,616	\$ 450,616
Board-designated endowment fund	<u>1,269,559</u>	<u>-</u>	<u>1,269,559</u>
	\$ <u>1,269,559</u>	\$ <u>450,616</u>	\$ <u>1,720,175</u>

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT – CONTINUED

Composition and Changes in Endowment Net Assets – Continued

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,508,300	\$ 450,016	\$ 1,958,316
Investment income (loss):			
Investment income, net	26,912	6,432	33,344
Net appreciation (realized/unrealized)	<u>30,230</u>	<u>6,182</u>	<u>36,412*</u>
Total investment income	57,142	12,614	69,756
Transfers	-	-	-
Contributions	1,524	-	1,524
Distributions	(309,421)	-	(309,421)
Appropriation of endowment assets for expenditure	<u>12,014</u>	<u>(12,014)</u>	<u>-</u>
Endowment net assets, end of year	\$ <u>1,269,559</u>	\$ <u>450,616</u>	\$ <u>1,720,175</u>

*Net appreciation includes realized gains of \$121,676 and unrealized (loss) of (\$52,041), net of investment expenses of \$33,223 (Note 8).

Endowment net assets composition by type of fund is as follows at December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 450,016	\$ 450,016
Board-designated endowment fund	<u>1,508,300</u>	<u>-</u>	<u>1,508,300</u>
	\$ <u>1,508,300</u>	\$ <u>450,016</u>	\$ <u>1,958,316</u>

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT – CONTINUED

Composition and Changes in Endowment Net Assets – Continued

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,457,775	\$ 449,567	\$ 1,907,342
Investment income (loss):			
Investment income, net	27,195	5,377	32,572
Net appreciation (realized/unrealized)	<u>15,614</u>	<u>2,788</u>	<u>18,402*</u>
Total investment income	42,809	8,165	50,974
Transfers	-	-	-
Contributions	-	-	-
Distributions	-	-	-
Appropriation of endowment assets for expenditure	<u>7,716</u>	<u>(7,716)</u>	<u>-</u>
Endowment net assets, end of year	\$ <u>1,508,300</u>	\$ <u>450,016</u>	\$ <u>1,958,316</u>

*Net appreciation includes realized gains of \$119,082 and unrealized (loss) of (\$69,052), net of investment expenses of \$31,628 (Note 8).

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 donor-restricted contributions and continued appropriation for certain programs as might be deemed prudent by the Board.

The Association has a policy that permits spending from endowment funds with deficiencies depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT – CONTINUED

Endowment Funds with Deficiencies – Continued

As of and for the years ended December 31, 2019 and 2018, the Association did not have any endowment funds with 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.

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.

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT – CONTINUED

Spending Policy and How the Investment Objectives Relate to Spending Policy – Continued

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 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 - 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, 2019 and 2018, the Association made no contributions to the Plan.

NOTE 13 - COMMITMENTS

Operating Leases

The Association leases various facilities under operating lease agreements that expire on various dates through March 2022 and require aggregate minimum monthly payments of approximately \$24,100. The Association also leases certain office equipment under operating lease agreements that expire on various dates through September 2023 and require aggregate minimum monthly payments of approximately \$4,500. 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, 2019:

<u>Year Ending</u> <u>December 31,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2020	\$ 252,650	\$ 30,174	\$ 282,824
2021	203,614	5,013	208,627
2022	50,823	4,452	55,275
2023	<u>-</u>	<u>3,339</u>	<u>3,339</u>
Total	\$ <u>507,087</u>	\$ <u>42,978</u>	\$ <u>550,065</u>

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS – CONTINUED

Operating Leases – Continued

For the years ended December 31, 2019 and 2018, total facility and equipment rent expense under these operating lease agreements amounted to \$333,401 and \$316,797, respectively, and is included in facility expenses in the accompanying consolidated statements of functional expenses.

NOTE 14 - 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, 2019, if any, will be resolved without material adverse effect on the Association's future financial position, results of operations, or cash flows.

NOTE 15 - AVAILABILITY OF FINANCIAL ASSETS

The Association's financial assets available within one year of the consolidated balance sheet date for general expenditures are as follows at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,050,524	\$ 1,721,226
Patient accounts receivable	1,863,028	1,911,644
Investments	<u>261,059</u>	<u>607,682</u>
	4,174,611	4,240,552
Less: financial assets unavailable for general expenditures (subject to expenditure for donor-specified purpose)	<u>(69,640)</u>	<u>(40,953)</u>
Total	\$ <u>4,104,971</u>	\$ <u>4,199,599</u>

The Association's endowment funds consist of donor-restricted endowments and quasi-endowment. Certain income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. The Board-designated endowment fund is available in accordance with the Association's investment spending policy applicable to endowment funds (Note 11). As of December 31, 2019 and 2018, the total funds available for distribution within the next 12 months amounted to \$87,355 and \$85,010, respectively (Note 8).

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 - AVAILABILITY OF FINANCIAL ASSETS – CONTINUED

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Association invests cash in excess of daily requirements in short-term investments. And to help manage unanticipated liquidity needs, the Association has a \$750,000 line of credit available, which it could draw upon if necessary.

SUPPLEMENTAL CONSOLIDATING INFORMATION

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2019

	<u>LMVNA</u>	<u>LC</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,949,467	\$ 101,057	\$ -	\$ 2,050,524
Patient accounts receivable, net	1,280,820	169,949	-	1,450,769
Investments	261,059	-	-	261,059
Prepaid expenses and other current assets	165,257	1,401	-	166,658
Due (to) from - intercompany	<u>(236,163)</u>	<u>-</u>	<u>236,163</u>	<u>-</u>
Total current assets	3,420,440	272,407	236,163	3,929,010
BENEFICIAL INTEREST IN NET ASSETS OF VCCF	1,720,175	-	-	1,720,175
PROPERTY AND EQUIPMENT, NET	<u>276,861</u>	<u>-</u>	<u>-</u>	<u>276,861</u>
Total assets	<u>\$ 5,417,476</u>	<u>\$ 272,407</u>	<u>\$ 236,163</u>	<u>\$ 5,926,046</u>
CURRENT LIABILITIES:				
Accounts payable	\$ 128,978	\$ 53	\$ -	\$ 129,031
Accrued expenses	1,361,213	101,763	-	1,462,976
Due to (from) - intercompany	<u>-</u>	<u>(236,163)</u>	<u>236,163</u>	<u>-</u>
Total current liabilities	<u>1,490,191</u>	<u>(134,347)</u>	<u>236,163</u>	<u>1,592,007</u>
Total liabilities	<u>1,490,191</u>	<u>(134,347)</u>	<u>236,163</u>	<u>1,592,007</u>
COMMITMENTS AND CONTINGENCIES	-	-	-	-
NET ASSETS:				
Without donor restrictions	3,426,819	386,964	-	3,813,783
With donor restrictions	<u>500,466</u>	<u>19,790</u>	<u>-</u>	<u>520,256</u>
Total net assets	<u>3,927,285</u>	<u>406,754</u>	<u>-</u>	<u>4,334,039</u>
Total liabilities and net assets	<u>\$ 5,417,476</u>	<u>\$ 272,407</u>	<u>\$ 236,163</u>	<u>\$ 5,926,046</u>

See independent auditors' report

LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2018

	<u>LMVNA</u>	<u>LC</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,635,137	\$ 86,089	\$ -	\$ 1,721,226
Patient accounts receivable, net	1,443,235	95,527	-	1,538,762
Investments	607,682	-	-	607,682
Prepaid expenses and other current assets	244,043	7,918	-	251,961
Due (to) from - intercompany	<u>(142,920)</u>	<u>-</u>	<u>142,920</u>	<u>-</u>
Total current assets	3,787,177	189,534	142,920	4,119,631
BENEFICIAL INTEREST IN NET ASSETS OF VCCF	1,958,316	-	-	1,958,316
PROPERTY AND EQUIPMENT, NET	<u>358,112</u>	<u>-</u>	<u>-</u>	<u>358,112</u>
Total assets	<u>\$ 6,103,605</u>	<u>\$ 189,534</u>	<u>\$ 142,920</u>	<u>\$ 6,436,059</u>
CURRENT LIABILITIES:				
Accounts payable	\$ 87,685	\$ 1,762	\$ -	\$ 89,447
Accrued expenses	1,310,429	71,540	-	1,381,969
Due to (from) - intercompany	<u>-</u>	<u>(142,920)</u>	<u>142,920</u>	<u>-</u>
Total current liabilities	<u>1,398,114</u>	<u>(69,618)</u>	<u>142,920</u>	<u>1,471,416</u>
Total liabilities	<u>1,398,114</u>	<u>(69,618)</u>	<u>142,920</u>	<u>1,471,416</u>
COMMITMENTS AND CONTINGENCIES	-	-	-	-
NET ASSETS:				
Without donor restrictions	4,230,476	243,198	-	4,473,674
With donor restrictions	<u>475,015</u>	<u>15,954</u>	<u>-</u>	<u>490,969</u>
Total net assets	<u>4,705,491</u>	<u>259,152</u>	<u>-</u>	<u>4,964,643</u>
Total liabilities and net assets	<u>\$ 6,103,605</u>	<u>\$ 189,534</u>	<u>\$ 142,920</u>	<u>\$ 6,436,059</u>

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LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>LMVNA</u>	<u>LC</u>	<u>Eliminations</u>	<u>Total</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:				
REVENUE AND SUPPORT:				
Patient service revenue, net of contractual allowances and discounts	\$ 15,174,307	\$ 1,486,551	\$ -	\$ 16,660,858
Net patient service revenue	15,174,307	1,486,551	-	16,660,858
Income from investments	12,899	-	-	12,899
Income from beneficial interest in net assets of VCCF, net of expenses of \$33,223	121,197	-	-	121,197
Contributions and grants	389,881	-	-	389,881
Fundraising events, net of direct expenses	118,958	-	-	118,958
Other revenues	66,738	1,152	(66,000)	1,890
Net assets released from restrictions, used for operations	768,973	18,131	-	787,104
Total revenue and support	<u>16,652,953</u>	<u>1,505,834</u>	<u>(66,000)</u>	<u>18,092,787</u>
EXPENSES:				
Program services	14,537,555	1,031,365	-	15,568,920
Supporting services:				
Fundraising	504,847	-	-	504,847
General and administrative	2,362,168	330,702	(66,000)	2,626,870
Total supporting services	<u>2,867,015</u>	<u>330,702</u>	<u>(66,000)</u>	<u>3,131,717</u>
Total expenses	<u>17,404,570</u>	<u>1,362,067</u>	<u>(66,000)</u>	<u>18,700,637</u>
(Deficiency) excess of revenues over expenses	(751,617)	143,767	-	(607,850)
NET UNREALIZED (LOSS) - BENEFICIAL INTEREST IN NET ASSETS OF VCCF	<u>(52,041)</u>	<u>-</u>	<u>-</u>	<u>(52,041)</u>
(Decrease) increase in net assets without donor restrictions	<u>(803,658)</u>	<u>143,767</u>	<u>-</u>	<u>(659,891)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:				
Income from beneficial interest in net assets of VCCF	600	-	-	600
Contributions and grants	721,186	21,966	-	743,152
Fundraising events, net of direct expenses	72,639	-	-	72,639
Net assets released from restrictions, used for operations	(768,973)	(18,131)	-	(787,104)
Increase in net assets with donor restrictions	<u>25,452</u>	<u>3,835</u>	<u>-</u>	<u>29,287</u>
NET CHANGE IN NET ASSETS	(778,206)	147,602	-	(630,604)
NET ASSETS, beginning of year	<u>4,705,491</u>	<u>259,152</u>	<u>-</u>	<u>4,964,643</u>
NET ASSETS, end of year	<u>\$ 3,927,285</u>	<u>\$ 406,754</u>	<u>\$ -</u>	<u>\$ 4,334,039</u>

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LIVINGSTON MEMORIAL VNA HEALTH CORP. AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION
CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>LMVNA</u>	<u>LC</u>	<u>Eliminations</u>	<u>Total</u>
CHANGES IN ASSETS WITHOUT DONOR RESTRICTIONS:				
REVENUE AND SUPPORT:				
Patient service revenue, net of contractual allowances and discounts	\$ 15,494,559	\$ 1,280,148	\$ -	\$ 16,774,707
Provision for bad debts	(7,945)	-	-	(7,945)
Net patient service revenue	15,486,614	1,280,148	-	16,766,762
Income from investments	7,552	-	-	7,552
Income from beneficial interest in net assets of VCCF, net of expenses of \$31,628	119,577	-	-	119,577
Contributions and grants	423,330	-	-	423,330
Fundraising events, net of direct expenses	174,026	-	-	174,026
Other revenues	89,523	-	(66,000)	23,523
Net assets released from restrictions, used for operations	734,200	23,505	-	757,705
Total revenue and support	<u>17,034,822</u>	<u>1,303,653</u>	<u>(66,000)</u>	<u>18,272,475</u>
EXPENSES:				
Program services	15,090,321	877,769	-	15,968,090
Supporting services:				
Fundraising	424,905	-	-	424,905
General and administrative	2,342,594	323,647	(66,000)	2,600,241
Total supporting services	<u>2,767,499</u>	<u>323,647</u>	<u>(66,000)</u>	<u>3,025,146</u>
Total expenses	<u>17,857,820</u>	<u>1,201,416</u>	<u>(66,000)</u>	<u>18,993,236</u>
(Deficiency) excess of revenues over expenses	(822,998)	102,237	-	(720,761)
NET UNREALIZED (LOSS) - BENEFICIAL INTEREST IN NET ASSETS OF VCCF	<u>(69,052)</u>	<u>-</u>	<u>-</u>	<u>(69,052)</u>
(Decrease) increase in net assets without donor restrictions	<u>(892,050)</u>	<u>102,237</u>	<u>-</u>	<u>(789,813)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:				
Income from beneficial interest in net assets of VCCF	449	-	-	449
Contributions and grants	659,270	39,459	-	698,729
Fundraising events, net of direct expenses	64,762	-	-	64,762
Net assets released from restrictions, used for operations	(734,200)	(23,505)	-	(757,705)
(Decrease) increase in net assets with donor restrictions	<u>(9,719)</u>	<u>15,954</u>	<u>-</u>	<u>6,235</u>
NET CHANGE IN NET ASSETS	(901,769)	118,191	-	(783,578)
NET ASSETS, beginning of year	5,607,260	140,961	-	5,748,221
NET ASSETS, end of year	<u>\$ 4,705,491</u>	<u>\$ 259,152</u>	<u>\$ -</u>	<u>\$ 4,964,643</u>

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