

**VISITING NURSE ASSOCIATION OF
SOUTH CENTRAL CONNECTICUT, INC.**

YEARS ENDED JUNE 30, 2008 AND 2007



VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

YEARS ENDED JUNE 30, 2008 AND 2007

CONTENTS

	Page
Independent Auditors' Report	1
Financial statements:	
Balance sheets	2-3
Statements of operations	4
Statements of changes in net assets	5
Statements of cash flows	6-7
Notes to financial statements	8-17



Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

Independent Auditors' Report

Board of Directors
Visiting Nurse Association of South Central Connecticut, Inc.
New Haven, Connecticut

We have audited the accompanying balance sheets of Visiting Nurse Association of South Central Connecticut, Inc. (the Association) as of June 30, 2008 and 2007, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Visiting Nurse Association of South Central Connecticut, Inc. as of June 30, 2008 and 2007, and the results of its operations, changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated January 21, 2009 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Lefkowitz, Garfinkel, Champi & DeRienzo P.C.

January 21, 2009

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

BALANCE SHEETS – JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 589,564	\$ 94,460
Investments	120,622	178,920
Receivables:		
Patient services, less allowance for doubtful accounts (2008, \$302,016; 2007, \$318,060)	2,328,700	2,357,011
Grants	84,177	93,116
Prepaid expenses and other	<u>207,239</u>	<u>323,844</u>
Total current assets	3,330,302	3,047,351
Leasehold improvements and equipment, less accumulated depreciation	371,776	443,411
Other assets	<u>123,447</u>	<u>121,254</u>
Total assets	<u>\$ 3,825,525</u>	<u>\$ 3,612,016</u>

(continued)

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

BALANCE SHEETS – JUNE 30, 2008 AND 2007 (CONTINUED)

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current liabilities:		
Line of credit	\$ 500,000	\$ 700,000
Accounts payable	171,511	318,443
Accrued expenses	1,495,733	1,395,270
Deferred grant revenue	202,467	119,959
Estimated amounts due to third-party payors	450,000	450,000
	<u>2,819,711</u>	<u>2,983,672</u>
Total current liabilities		
Other liabilities	<u>262,923</u>	<u>277,616</u>
	<u>3,082,634</u>	<u>3,261,288</u>
Total liabilities		
Commitments and contingency (Notes 11, 12, 15 and 16)		
Net assets:		
Unrestricted	657,925	263,961
Temporarily restricted	34,966	36,767
Permanently restricted	50,000	50,000
	<u>742,891</u>	<u>350,728</u>
Total net assets		
Total liabilities and net assets	<u>\$ 3,825,525</u>	<u>\$ 3,612,016</u>

See notes to financial statements.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

STATEMENTS OF OPERATIONS

YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Unrestricted revenue, gains and other support:		
Net patient service revenue:		
Medicare	\$ 6,226,632	\$ 6,280,037
Medicaid and other State programs	8,136,615	7,001,428
Private insurance and other	1,429,242	1,146,439
Grant revenue and United Way allocation	408,591	360,843
Contributions	27,866	59,552
Investment income	24,416	24,704
Fundraising income, net of expenses	50,534	17,376
Transactions with Affiliate	399,619	404,959
Other	93,181	48,929
Net assets released from restrictions	4,561	11,949
Total unrestricted revenue, gains and other support	16,801,257	15,356,216
Expenses:		
Salaries and wages	11,364,303	10,510,759
Payroll taxes and employee benefits	2,187,569	1,999,374
Contracted patient services	233,584	368,798
Transportation	308,897	262,847
Medical supplies	225,871	223,054
Occupancy	513,992	484,645
Supplies and other expenses	1,044,837	1,007,602
Provision for losses on accounts receivable	241,419	257,130
Depreciation	202,119	349,301
Interest	35,598	38,718
Total expenses	16,358,189	15,502,228
Excess (deficiency) of revenue over expenses	443,068	(146,012)
Change in net unrealized gains (losses) on investments other than trading securities	(49,104)	5,792
Increase (decrease) in unrestricted net assets	\$ 393,964	\$ (140,220)

See notes to financial statements.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Unrestricted net assets:		
Excess (deficiency) of revenue over expenses	\$ 443,068	\$ (146,012)
Change in net unrealized gains (losses) on investments other than trading securities	<u>(49,104)</u>	<u>5,792</u>
Increase (decrease) in unrestricted net assets	<u>393,964</u>	<u>(140,220)</u>
Temporarily restricted net assets:		
Contributions and grants	2,760	21,070
Net assets released from restrictions	<u>(4,561)</u>	<u>(11,949)</u>
Increase (decrease) in temporarily restricted net assets	<u>(1,801)</u>	<u>9,121</u>
Increase (decrease) in net assets	392,163	(131,099)
Net assets, beginning of year	<u>350,728</u>	<u>481,827</u>
Net assets, end of year	<u>\$ 742,891</u>	<u>\$ 350,728</u>

See notes to financial statements.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 392,163	\$ (131,099)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	202,119	349,301
Provision for losses on accounts receivable	241,419	257,130
Contribution restricted for purchase of equipment		(10,000)
Unrealized losses (gains) on investments	49,104	(5,792)
Other liabilities	(14,693)	46,167
Recovery of amounts from Affiliate	(25,900)	(25,701)
Changes in assets and liabilities:		
Receivables:		
Patient services	(213,108)	(1,152,210)
Grants	8,939	1,909
Prepaid expenses and other	116,605	(266,847)
Accounts payable	(146,932)	75,017
Accrued expenses	100,463	131,906
Deferred grant revenue	82,508	(15,818)
	792,687	(746,037)
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchases of and reinvestment of dividends and interest earned on investments	(20,806)	(70,625)
Proceeds from sale of investments	30,000	50,000
Purchases of equipment	(130,484)	(47,510)
Increase in cash surrender value of life insurance	(2,193)	(25,072)
Recovery of amounts from Affiliate	25,900	25,701
	(97,583)	(67,506)
Net cash used in investing activities		
Cash flows from financing activities:		
Net increase (decrease) in line of credit	(200,000)	700,000
Payments on note payable, bank		(236,112)
Contribution restricted for purchase of equipment		10,000
	(200,000)	473,888
Net cash provided by (used in) financing activities		

(continued)

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Net increase (decrease) in cash and cash equivalents	\$ 495,104	\$ (339,655)
Cash and cash equivalents, beginning of year	<u>94,460</u>	<u>434,115</u>
Cash and cash equivalents, end of year	<u>\$ 589,564</u>	<u>\$ 94,460</u>
Supplemental disclosure, cash paid for interest	<u>\$ 39,722</u>	<u>\$ 37,417</u>

See notes to financial statements.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

1. Description of organization:

Visiting Nurse Association of South Central Connecticut, Inc. (the Association) is a tax-exempt, nonstock corporation that provides and administers a comprehensive, multi-disciplinary, therapeutic and public health nursing program to residents of 12 cities and towns in Connecticut who have third-party financial coverage (principally Medicare and Medicaid), as well as residents who are responsible for their own financial obligations. The Association is accredited by the Community Health Accreditation Program, Inc.

VNA Health Systems, Inc. (the Company), a nonstock, tax-exempt holding corporation, is the sole member of the Association. The Company is also the sole member of CareSource, Inc. (the Affiliate), a nonstock, taxable corporation, which provides private-duty, nonskilled services. The accompanying financial statements do not include the accounts and transactions of the Company or the Affiliate.

2. Summary of significant accounting policies:

Use of estimates:

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

Basis of financial statement presentation:

The Association's net assets and activities that increase or decrease net assets are classified as either unrestricted, temporarily restricted or permanently restricted:

Unrestricted net assets are those without any donor-imposed restrictions as to their use and are available for the general operations of the Association.

Temporarily restricted net assets are those whose use by the Association has been limited by donors to a specific time period or purpose. At June 30, 2008 and 2007, the Association's temporarily restricted net assets consist of funds received to be used for future programs and long-term assets.

Permanently restricted net assets represent assets transferred into a publicly supported endowment fund in the Association's name at The Community Foundation for Greater New Haven (CFGNH), to be maintained by the Association in perpetuity.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

2. Summary of significant accounting policies (continued):

Basis of financial statement presentation (continued):

Revenue, gains and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments or other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Excess (deficiency) of revenue over expenses:

The statements of operations and changes in net assets include "excess (deficiency) of revenue over expenses." Changes in unrestricted net assets which are excluded from "excess (deficiency) of revenue over expenses," consistent with industry practice, include change in net unrealized gains (losses) on investments other than trading securities.

Contributions and net assets released from restrictions:

Contribution revenue is recorded as received. If a contribution is made in assets other than cash, the amount of the contribution is measured at the fair value of the asset contributed at the date the contribution or unconditional promise to give is made by the donor.

Contributions of cash, including any future collections of unconditional promises to give, and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of changes in net assets as "net assets released from restrictions." Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts 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. Without explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Contributed services:

Contributed services received by the Association are not recognized as support in the accompanying statements of operations since such services either do not require specialized skills or would not typically be purchased if not provided by donation.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

2. Summary of significant accounting policies (continued):

Net patient service revenue and receivables:

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews and investigations.

The Association's arrangement with Medicare provides for payment at prospectively determined rates based on individual patient diagnosis for an episode of care (up to a sixty-day period). Medicare revenue is recognized proportionately over the sixty-day period, or a shorter period if the episode does not last for sixty days. The payment rates for episodes of care are subject to retroactive adjustment based on changes in the patients' condition and/or audits, reviews and investigations.

The Association's arrangements with Medicaid and other State programs provide for payment at prospectively determined fee for service rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. It is management's opinion that the Association is in compliance with applicable laws and regulations and it is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties and exclusion from Medicare and Medicaid programs.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable.

The Association does not obtain collateral for amounts due from providing patient services. The Association's accounts receivable are due from local residents, their responsible parties and third-party payors.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

2. Summary of significant accounting policies (continued):

Net patient service revenue and receivables (continued):

At June 30, 2008 and 2007, approximately 25% and 41%, respectively, of the Association's accounts receivable are due from Medicare. In addition, at June 30, 2008 and 2007, approximately 60% and 39%, respectively, of the Association's accounts receivable are due from Medicaid and other State programs.

Cash and cash equivalents:

The Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Association had an overnight repurchase agreement of approximately \$251,000 at June 30, 2008 which was uninsured and considered a cash equivalent. The Association had no cash equivalents at June 30, 2007.

At June 30, 2008 and 2007, the Association has cash of approximately \$122,106 and \$54,600, respectively, in excess of the amounts insured by the Federal Deposit Insurance Corporation.

Investments:

The Association's investments are classified as other than trading securities and stated at fair value. Investments sold are identified using the specific identification method.

Leasehold improvements and equipment:

Leasehold improvements and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Deferred grant revenue:

The Association receives annual allocations to be used in general operating activities. It is the Association's policy to recognize revenue based on expenditures incurred.

Rent and other liabilities:

The Association's lease of its headquarters office space provides for scheduled rent increases over a term of approximately 10 years. The Association's policy is to record rent expense on a straight-line basis over the lease term, which expires in September 2014. Amounts accrued in excess of the current required rental payment are reported as other liabilities in the accompanying balance sheets.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

2. Summary of significant accounting policies (continued):

Charity care:

The Association provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on financial information obtained from the patient and services provided. Because the Association does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue in the accompanying statements of operations.

Pension plan:

The Association's policy is to accrue and fund its money purchase (defined contribution) pension costs on a current basis.

Income taxes:

The Association qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal or state income taxes.

3. Investments:

The Association's investments, which are held by Merrill Lynch, are as follows:

	<u>2008</u>	<u>2007</u>
Money market funds	\$ 2,578	\$ 31,740
Mutual funds	<u>118,044</u>	<u>147,180</u>
	<u>\$ 120,622</u>	<u>\$ 178,920</u>

In September 2008, the Association's management decided to liquidate these investments and use the proceeds to pay down the line of credit. The Association received proceeds of \$92,800, and recognized a loss of approximately \$76,000 on the sale.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

4. Leasehold improvements and equipment:

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 226,068	\$ 226,068
Computer equipment	1,552,694	1,422,210
Furniture and equipment	<u>645,623</u>	<u>645,623</u>
	2,424,385	2,293,901
Less accumulated depreciation	<u>2,052,609</u>	<u>1,850,490</u>
	<u>\$ 371,776</u>	<u>\$ 443,411</u>

5. Line of credit:

The Association has borrowing capacity in the maximum amount of the lesser of \$1,000,000 or 80% of the value of defined eligible patient service receivables under a line of credit agreement with a bank, with interest at the bank's prime rate (5% at June 30, 2008), expiring November 30, 2008. The line of credit is secured by a first security position in all business assets of the Association and is subject to certain restrictive covenants relating to, among others, maintenance of certain financial ratios, provision of financial statements and compliance with certain laws and regulations. In December 2008, the line of credit was increased to the lesser of \$1,500,000 or 80% of the value of defined eligible patient service receivables, expiring November 30, 2009. The interest rate was adjusted to the bank's prime rate plus 1%; however, the interest rate shall at no time be less than 4%.

6. Other liabilities:

	<u>2008</u>	<u>2007</u>
Accrued rent	\$ 190,164	\$ 174,610
Deferred compensation (Note 14)	<u>72,759</u>	<u>103,006</u>
	<u>\$ 262,923</u>	<u>\$ 277,616</u>

7. Defined contribution retirement plan:

Certain employees of the Association who have met specified age and length of service requirements are covered by a defined contribution retirement plan. Retirement plan expense is 5% of covered wages, less forfeitures for nonvested account balances, and amounted to \$371,508 and \$330,514 for the years ended June 30, 2008 and 2007, respectively. Effective June 1, 2008, the Association added a 401(k) component to the defined contribution retirement plan. Participants did not begin deferring amounts into the Plan until July 2008. Employer contributions to the 401(k) component will also include a discretionary matching contribution to be determined annually.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

8. Transactions with Affiliate:

In prior years, the Association made unsecured loans and advances to the Affiliate totaling \$348,659. In the opinion of management, the Affiliate was no longer able to repay the Association the funds advanced; therefore, the advances were written off in 2001. The Affiliate has continued to pay interest on these advances to the Association at the Association's bank's prime rate plus 1% (6% and 9.25% at June 30, 2008 and 2007, respectively). During 2008 and 2007, the Affiliate made repayments of certain of these advances. At June 30, 2008 and 2007, the amount due from the Affiliate totaled approximately \$261,000 and \$287,000, respectively.

Effective July 1, 2006, the Association entered into a two-year cost-sharing arrangement (cost share) with the Affiliate. The cost share was calculated based on various payroll and related benefit costs and accompanying costs of the Association. Included in prepaid expenses and other as of June 30, 2008 and 2007 is \$181,877 and \$163,713, respectively, due from the Affiliate for unpaid cost-share and other reimbursable costs. The Association entered into a one-year extension of the cost share at \$384,000.

The amounts recognized as revenue from the Affiliate were as follows:

	2008	2007
Interest	\$ 22,011	\$ 27,550
Repayment of advances written off	25,900	25,701
Cost share	351,708	351,708
	\$ 399,619	\$ 404,959

The Association purchased contracted patient services from the Affiliate totaling \$180,503 and \$212,998 in 2008 and 2007, respectively, which is included in contracted patient services expense in the accompanying statements of operations. Included in accounts payable in the accompanying balance sheets is \$17,045 and \$4,523 as of June 30, 2008 and 2007, respectively, relating to these purchases.

9. Charity care:

The Association, through its subsidized care programs financed jointly with the United Way, provided 905 and 1,058 visits to individuals without any source of payment for the years ended June 30, 2008 and 2007, respectively.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

9. Charity care (continued):

As part of the Association's commitment to the communities it serves, an employee safety program involving the use of escorts for clinical staff has been established for services rendered in high risk areas. Care for patients in these areas is primarily financed through Medicaid or the Association's subsidized care programs.

10. Assets held in trust:

In prior years, the Association was named an income beneficiary of the Ella E. Smith Fund, the Visiting Nurse Association of South Central Connecticut Fund and the Martha W.R. Wayland Fund, all held at the CFGNH. Since the assets are administered at the discretion of the CFGNH, which has the unilateral power to redirect the use of the assets to another beneficiary, the assets are not included in the accompanying financial statements. The fair value of these assets at June 30, 2008 totaled approximately \$256,000 (unaudited). Distributions of income are made annually to the Association and can be used for general operating purposes.

11. Description of leasing arrangement:

The Association leases its headquarters office space under an operating lease which expires September 30, 2014. The terms include an annual rent holiday month. Rental expense amounted to \$404,537 for the years ended June 30, 2008 and 2007. Minimum cash outlay rental commitments under the lease at June 30, 2008 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 400,520
2010	412,493
2011	424,971
2012	437,769
2013	450,820

12. Collective bargaining agreements:

Approximately 53% of the Association's labor force is covered by three separate collective bargaining agreements. One of the collective bargaining agreements, which covers approximately 22% of the Association's labor force, expired in May 2008. As of June 30, 2008, those employees were working under the terms of that expired agreement. A new agreement was reached in December 2008 and expires in May 2010. The other collective bargaining agreements, which cover approximately 31% of the Association's labor force, expire in May 2009 and January 2010.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

13. Functional expenses:

Expenses related to providing services are as follows:

	<u>2008</u>	<u>2007</u>
Health care services	\$ 13,086,741	\$ 11,964,048
General and administrative	3,000,744	3,164,162
Development and fundraising	<u>270,704</u>	<u>374,018</u>
	<u>\$ 16,358,189</u>	<u>\$ 15,502,228</u>

14. Deferred compensation arrangements:

In 2002, the Association adopted a nonqualified deferred compensation plan for key executives. The plan allowed the Association to make nonelective contributions in the form of bi-annual premiums paid on the life insurance policies on these key executives. The Board passed a resolution to cease contributions to this plan during the fiscal year ended June 30, 2008. As of June 30, 2008, only one of these key executives remains in the plan. The key executive will be fully vested in the cash surrender value of the life insurance policy upon completion of ten years of employment, which will occur in November 2012; disability while employed; or involuntary termination of employment by the Association for reasons other than cause.

The Association adopted a new nonqualified deferred compensation plan for key executives for the calendar year beginning January 1, 2008. The plan allows the Association to make nonelective contributions of the lesser of 10% of compensation or certain limitations set forth in the Internal Revenue Code. The participants shall be fully vested in all contributions immediately.

The Association has recorded a deferred compensation liability of approximately \$73,000 and \$103,000 at June 30, 2008 and 2007, respectively, which is included in other liabilities in the accompanying balance sheets. The Association reserves the right to amend or terminate the policies and/or the plan, or change the amount of contributions to the policies.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

15. Subsequent events:

Subsequent to year-end, the Association entered into two noncancelable capital lease arrangements for a new phone system and certain computer equipment (together, equipment). These capital lease obligations total approximately \$600,000 and are secured by the equipment. The leases have five year terms at a rate of 4.96%, with a combined monthly payment, including interest, of approximately \$11,300.

Annual lease maturities are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 71,823
2010	112,176
2011	117,740
2012	123,580
2013	129,709

16. Contingency:

The Association is subject to audit by Medicaid, as well as other third party payors, during the ordinary course of business. The Association regularly records a liability, classified as estimated amounts due to third-party payors, on its balance sheets for amounts which may be due to third parties as a result of these audits and other investigations and reviews. In May of 2008, the State of Connecticut, under Medicaid, opened up two separate audits of the Association's Medicaid claims for calendar years 2006 and 2007. One of these audits has subsequently been resolved with no monetary findings and the second is pending with a claimed amount owed to the State of approximately \$914,000. Management does not believe that the final resolution of this matter will approach the amount claimed by the State and believes that the recorded estimated amounts due to third-party payors is adequate to cover any payment as a result of this audit and other investigations and reviews. Management will engage legal counsel on this matter; a hearing/ exit conference with the State has not been finalized as of January 21, 2009. With the aid of legal counsel, the Association intends to vigorously defend its position in calendar year 2009. Management believes that the ultimate resolution of this matter will not have a material adverse effect on the results of operations or financial position of the Association.