

**Visiting Nurse Association of
South Central Connecticut, Inc.**

Report on Financial Statements

Years Ended June 30, 2010 and 2009

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

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Report of Independent Public Accountants

To the Board of Directors
Visiting Nurse Association of South Central Connecticut, Inc.

We have audited the accompanying balance sheets of Visiting Nurse Association of South Central Connecticut, Inc. (the "Association") as of June 30, 2010 and 2009, and the related statements of operations and 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 of America 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, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010 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.

 J.H. Cohn LLP

Glastonbury, Connecticut
November 23, 2010

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

**BALANCE SHEETS
JUNE 30, 2010 AND 2009**

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 961,410	\$ 549,327
Patient service receivables, less allowance for doubtful accounts	2,080,345	2,616,849
Grants receivable	66,495	59,285
Prepaid expenses and other	251,340	632,084
Current portion of note receivable from Affiliate	124,473	-
Total current assets	<u>3,484,063</u>	<u>3,857,545</u>
Leasehold improvements and equipment, net	800,430	914,723
Note receivable from Affiliate, less current portion	554,224	-
Other assets	129,041	126,497
Total assets	<u>\$ 4,967,758</u>	<u>\$ 4,898,765</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Line of credit	\$ 835,000	\$ 500,000
Current portion of capital lease obligations	110,278	103,388
Accounts payable	238,135	207,841
Accrued expenses	1,559,245	1,567,835
Deferred revenue	523,056	438,286
Estimated amounts due to third-party payors	263,664	285,000
Total current liabilities	<u>3,529,378</u>	<u>3,102,350</u>
Capital lease obligations, less current portion	314,731	420,462
Other liabilities	196,750	284,069
Total liabilities	<u>4,040,859</u>	<u>3,806,881</u>
Commitments and contingencies		
Net assets:		
Unrestricted	849,594	954,437
Temporarily restricted	27,305	87,447
Permanently restricted	50,000	50,000
Total net assets	<u>926,899</u>	<u>1,091,884</u>
Total liabilities and net assets	<u>\$ 4,967,758</u>	<u>\$ 4,898,765</u>

See Notes to Financial Statements.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

**STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Changes in unrestricted net assets:		
Unrestricted revenue, gains and other support:		
Net patient service revenue:		
Medicare	\$ 5,726,508	\$ 5,974,054
Medicaid and other state programs	8,334,976	8,533,158
Private insurance and other	<u>1,879,042</u>	<u>1,588,084</u>
Totals	<u>15,940,526</u>	<u>16,095,296</u>
Grant revenue and United Way allocation	616,154	584,475
Contributions	74,471	55,892
Investment income (loss)	3,236	(17,706)
Fundraising income (loss), net of expenses	13,811	(8,271)
Transactions with Affiliate	31,609	396,309
Other	133,858	120,051
Net assets released from restrictions	61,688	9,207
Total unrestricted revenue, gains and other support	<u>16,875,353</u>	<u>17,235,253</u>
Expenses:		
Salaries and wages	11,527,663	11,813,392
Payroll taxes and employee benefits	2,372,337	2,338,424
Contracted patient services	261,335	173,817
Transportation	352,211	365,492
Medical supplies	147,453	167,860
Occupancy	539,217	519,314
Supplies and other expenses	1,058,199	1,122,987
Provision for losses on accounts receivable	451,746	210,500
Depreciation and amortization	211,399	179,983
Interest	<u>58,636</u>	<u>45,064</u>
Total expenses	<u>16,980,196</u>	<u>16,936,833</u>
(Deficiency) excess of revenue over expenses	<u>(104,843)</u>	<u>298,420</u>

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONCLUDED)
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Changes in unrestricted net assets (continued):		
(Deficiency) excess of revenue over expenses	\$ (104,843)	\$ 298,420
Unrealized loss on investments	-	(1,908)
(Decrease) increase in unrestricted net assets	<u>(104,843)</u>	<u>296,512</u>
Changes in temporarily restricted net assets:		
Contributions	1,546	61,688
Net assets released from restrictions	<u>(61,688)</u>	<u>(9,207)</u>
(Decrease) increase in temporarily restricted net assets	<u>(60,142)</u>	<u>52,481</u>
Change in net assets	(164,985)	348,993
Net assets, beginning of year	<u>1,091,884</u>	<u>742,891</u>
Net assets, end of year	<u>\$ 926,899</u>	<u>\$ 1,091,884</u>

See Notes to Financial Statements.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Operating activities:		
Change in net assets	\$ (164,985)	\$ 348,993
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	211,399	179,983
Provision for losses on accounts receivable	451,746	210,500
Unrealized loss on investments	-	1,908
Realized loss on investments	-	25,915
Deferred rent	(7,955)	4,017
Changes in operating assets and liabilities:		
Patient service receivables	84,758	(24,749)
Grants receivable	(7,210)	24,892
Prepaid expenses and other	(417,256)	(424,845)
Accounts payable	30,294	36,330
Accrued expenses	(8,590)	72,102
Deferred revenue	84,770	(238,081)
Estimated amounts due to third-party payors	(21,336)	(165,000)
Other liabilities	(79,364)	17,129
Net cash provided by operating activities	<u>156,271</u>	<u>69,094</u>
Investing activities:		
Proceeds from sale of investments	-	92,799
Purchases of equipment	(97,106)	(148,266)
Increase in cash surrender value of life insurance	(2,544)	(3,050)
Net cash used in investing activities	<u>(99,650)</u>	<u>(58,517)</u>
Financing activities:		
Principal payments received from Affiliate	119,303	-
Net draws on line of credit	335,000	-
Payments on capital lease obligations	(98,841)	(50,814)
Net cash provided by (used in) financing activities	<u>355,462</u>	<u>(50,814)</u>
Net increase (decrease) in cash and cash equivalents	412,083	(40,237)
Cash and cash equivalents, beginning of year	<u>549,327</u>	589,564
Cash and cash equivalents, end of year	<u>\$ 961,410</u>	<u>\$ 549,327</u>
Supplemental disclosure of cash flow data:		
Interest paid during the year	<u>\$ 58,636</u>	<u>\$ 45,064</u>
Supplemental disclosure of noncash transactions:		
Amount reclassified from prepaid expenses and other to note receivable from Affiliate	\$ 798,000	\$ -
Principal payments received from Affiliate	(119,303)	-
Note receivable from Affiliate at June 30, 2010	<u>\$ 678,697</u>	<u>\$ -</u>
Total purchases of equipment	\$ 97,106	\$ 722,930
Amount financed through capital lease obligations	-	574,664
Cash used in the purchase of equipment	<u>\$ 97,106</u>	<u>\$ 148,266</u>

See Notes to Financial Statements.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies:

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. The Association is accredited by the Community Health Accreditation Program, Inc.

VNA Health Systems, Inc. (the "Parent"), a nonstock, tax-exempt holding corporation, is the sole member of the Association. The Parent 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 Parent or the Affiliate.

Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting. The Association reports information regarding its net assets and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. They are described as follows:

Unrestricted:

Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted:

Net assets whose use by the Association is subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Association or that expire by the passage of time.

Permanently restricted:

Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Association and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor imposed stipulations or by operation of law.

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 operation of law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by operation of law.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (continued):

(Deficiency) excess of revenue over expenses:

The statements of operations and changes in net assets include (deficiency) excess of revenue over expenses. Changes in unrestricted net assets which are excluded from (deficiency) excess of revenue over expenses, consistent with industry practice, include unrealized loss on investments.

Revenue recognition:

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 statement of operations as net assets released from restrictions.

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.

Recognition of grant support:

The Association recognizes grants to the extent that eligible grant costs are incurred. Grants receivable are recognized to the extent costs have been incurred, but not reimbursed. Deferred revenue represents grant advances which exceed eligible costs incurred.

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to grantors. As of the date of the financial statements, the Association has not been informed by any funding organization of any funds which are required to be returned.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (continued):

Revenue recognition (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. Amounts received from these payors are different from established billing rates of the Association and the differences are accounted for as contractual allowances.

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.

Patient accounts receivable and revenues are recorded when patient services are performed and 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 allowance for doubtful accounts was \$480,963 and \$485,889 as of June 30, 2010 and 2009, respectively.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (continued):

Revenue recognition (concluded):

Net patient service revenue and receivables (concluded):

The following summarizes patient revenue for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	<u>\$21,820,186</u>	<u>\$ 21,775,954</u>
Contractual allowances	<u>(5,879,660)</u>	<u>(5,680,658)</u>
Net patient service revenue	<u>\$15,940,526</u>	<u>\$ 16,095,296</u>

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. Due to the fact that 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.

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 cash equivalents of approximately \$243,000 and \$342,000 at June 30, 2010 and 2009, respectively. In addition, at June 30, 2010 and 2009, there is \$50,000 of cash and cash equivalents that is restricted and is to be held in perpetuity in accordance with donor stipulations.

Income taxes:

The Association was organized as a nonstock, nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code and as such is not subject to Federal and state corporate income taxes.

The Association adopted the new accounting for uncertainty in income taxes guidance on July 1, 2009. The adoption of that guidance did not result in the recognition of any unrecognized tax benefits and the Association has no unrecognized tax benefits at June 30, 2010. The Association's U.S. Federal and state information returns prior to fiscal year 2007 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Association has unrelated business income taxes, the Association will recognize interest and penalties associated with uncertain tax positions as part of the income tax provision and include accrued interest and penalties with the related tax liability in balance sheets.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (concluded):

Leasehold improvements and equipment:

The Association capitalizes all leasehold improvements and equipment in excess of \$2,500. Leasehold improvements and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the useful life. Capital leases are amortized over the useful life of the asset or the lease term, depending on which criteria has been met for capitalization.

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of operations.

Rent and other liabilities:

The Association's lease of its headquarter's 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 and included in other liabilities in the accompanying balance sheets.

Use of estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification:

Certain prior year financial information has been reclassified to conform to the current year presentation.

Subsequent events:

The Association has evaluated subsequent events through November 23, 2010, which is the date the financial statements were available to be issued.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2 - Concentrations of credit risk:

The Association's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. The Association does not obtain collateral for amounts due from providing patient services. The Association manages the receivables by regularly reviewing its patient accounts and contracts and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable are as follows as of June 30:

	<u>2010</u>	<u>2009</u>
Medicaid	54%	48%
Medicare	24	28
Commercial and other	20	21
Self-pay	2	3
	<u>100%</u>	<u>100%</u>

Financial instruments which potentially subject the Association to concentrations of credit risk consist primarily of cash and cash equivalents. The Association considers all highly liquid debt instruments with an original maturity of three months or less when acquired to be cash equivalents. The Association maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed Federally insured limits.

Note 3 - Leasehold improvements and equipment:

Leasehold improvements and equipment are as follows as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 240,866	\$ 240,866
Computer equipment	2,339,550	2,281,620
Automobiles	39,175	-
Furniture and equipment	527,197	527,197
	<u>3,146,788</u>	<u>3,049,683</u>
Less accumulated depreciation and amortization	2,346,358	2,134,960
	<u>\$ 800,430</u>	<u>\$ 914,723</u>

Note 4 - Line of credit:

The Association has borrowing capacity at the maximum amount of the lesser of \$1,500,000 or 80% of the value of defined eligible patient accounts receivable under a line of credit agreement with a bank, with interest at the bank's prime rate (3.25% at June 30, 2010) plus 1%; however, the interest rate shall at no time be less than 4%. The line of credit expires November 30, 2010. Management intends to renew the line of credit agreement upon its expiration. The line of credit is secured by a first security position on 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.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5 - Other liabilities:

Other liabilities are comprised of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Accrued rent	\$ 186,226	\$ 194,181
Deferred compensation	10,524	89,888
	<u>\$ 196,750</u>	<u>\$ 284,069</u>

Note 6 - 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 \$416,331 and \$412,363 for the years ended June 30, 2010 and 2009, respectively. Effective June 1, 2008, the Association added a 401(k) component to the defined contribution retirement plan. Participants began deferring amounts into the Plan in July 2008.

Note 7 - Transactions with Affiliate:

In prior years, the Association made unsecured loans and advances to the Affiliate. The Affiliate paid interest on these advances to the Association at the Association's bank's prime rate (3.25% at June 30, 2009) plus 1%. At June 30, 2010 outstanding advances to the Affiliate are included in note receivable from Affiliate in the balance sheet, along with the cost share amount which is described below. At June 30, 2009, the amount due from the Affiliate for the advances totaled approximately \$225,000 which was reserved for in total. During fiscal year 2010, management determined that the reserve was no longer necessary as the Affiliate made their required payments based on the note described below.

The Association has a cost sharing arrangement with the Affiliate. The cost share was calculated based on various payroll and related benefit costs and accompanying costs of the Association and was included in prepaid expenses and other in the accompanying balance sheet at June 30, 2009. Effective July 1, 2009, the Board of Directors of the Affiliate approved the suspension of the cost sharing arrangement. The repayment terms of the outstanding amounts on the cost sharing arrangement (approximately \$573,000 at June 30, 2009) were modified to match those advances to the Affiliate, which are payable through June 2015, at an interest rate of the bank's prime rate (3.25% at June 30, 2010) plus 1%. These amounts are recorded as note receivable from Affiliate on the balance sheet at June 30, 2010. The monthly payments of principal and interest are \$12,576.

The future receipts on the note receivable from Affiliate are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 124,473
2012	129,867
2013	135,495
2014	141,368
2015	147,494
	<u>\$ 678,697</u>

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7 - Transactions with Affiliate (concluded):

The amounts recognized as revenue from the Affiliate were as follows for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Interest	\$ 31,609	\$ 12,309
Cost share	-	384,000
	<u>\$ 31,609</u>	<u>\$ 396,309</u>

During the years ended June 30, 2010 and 2009, the Association purchased contracted patient services from the Affiliate totaling \$255,704 and \$168,238, respectively, which are included in contracted patient services expense in the accompanying statements of operations. As of June 30, 2010 and 2009, included in accounts payable in the accompanying balance sheets is \$24,658 and \$11,563, respectively, relating to these purchases.

Note 8 - Charity care:

The Association, through its subsidized care programs financed jointly with the United Way, provided 364 and 256 visits to individuals without any source of payment for the years ended June 30, 2010 and 2009, respectively.

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.

Note 9 - 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 Community Foundation of Greater New Haven ("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, 2010 and 2009 totaled approximately \$158,000 and \$195,000, respectively (unaudited). Distributions of income are made annually to the Association and can be used for general operating purposes.

Note 10 - Operating lease:

The Association leases its headquarters office space under an operating lease which expires September 30, 2014. The terms include an annual rent holiday month and escalation clauses. Rental expense amounted to \$404,538 for each of the years ended June 30, 2010 and 2009.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 10 - Operating lease (concluded):

Future minimum lease payments under the lease, in each of the five years subsequent to June 30, 2010, are as follows:

<u>Year Ending June 30,</u>	Amount
2011	\$ 424,971
2012	437,769
2013	450,820
2014	464,307
2015	127,643
	<u>\$ 1,905,510</u>

Note 11 - Capital leases:

The Association leases certain equipment under capital lease obligations with terms expiring through March 2014. Future minimum payments under these leases are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 134,778
2012	134,778
2013	134,778
2014	<u>72,213</u>
Total minimum lease payments	476,547
Less amount representing interest	<u>(51,538)</u>
Present value of net minimum lease payments	425,009
Less current portion	<u>(110,278)</u>
	<u>\$ 314,731</u>

The capital leases have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at interest rates between 5.58% and 7.20%. The capitalized costs as of June 30, 2010 and 2009 were \$574,664, less accumulated amortization of \$150,800 and \$50,267, respectively. Amortization expense for the equipment for the years ended June 30, 2010 and 2009 was \$100,533 and \$50,267, respectively.

Note 12 - Collective bargaining agreements:

Approximately 55% of the Association's labor force is covered by three separate collective bargaining agreements, which expire at various times between June 2011 and June 2013.

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 13 - Functional expenses:

Health care services include salaries and related expenses as well as contracted services and supplies directly associated with the provision of care to the Association's patients. Functional expenses incurred for the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Health care services	\$12,872,414	\$ 13,549,663
General and administrative	4,015,429	3,106,890
Development and fundraising	92,353	280,280
	<u>\$16,980,196</u>	<u>\$ 16,936,833</u>

Note 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 of Directors passed a resolution to cease contributions to this plan during the fiscal year ended June 30, 2008. As of June 30, 2010, 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 in the plan, 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 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.

Note 15 - Temporarily restricted net assets:

Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2010</u>	<u>2009</u>
Future fiscal year program costs	\$ -	\$ 61,688
Certain other programs	27,305	25,759
	<u>\$ 27,305</u>	<u>\$ 87,447</u>

VISITING NURSE ASSOCIATION OF SOUTH CENTRAL CONNECTICUT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 16 - Endowment:

The Association's endowment consists of a donor-restricted endowment fund. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CTUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by CTUPMIFA.

In accordance with CTUPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

At June 30, 2010 and 2009, the endowment consisted of \$50,000 of permanently restricted net assets held in cash and cash equivalents. These net assets are to be kept in perpetuity based on donor-imposed stipulations. There was no investment income earned during the years ended June 30, 2010 and 2009.