

**AUDITED FINANCIAL STATEMENTS**

**VNA HEALTH SYSTEMS, INC.  
AND AFFILIATES**

**NEW HAVEN, CONNECTICUT**

**JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of  
VNA Health Systems, Inc. and Affiliates  
New Haven, Connecticut

**Report on the Financial Statements**

We have audited the accompanying combined financial statements of VNA Health Systems, Inc. and Affiliates, which comprise the combined balance sheet as of June 30, 2014, and the related combined statement of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 combined financial statements referred to above present fairly, in all material respects, the financial position of VNA Health Systems, Inc. and Affiliates as of June 30, 2014, and the combined results of its operations, changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Prior Period Financial Statements**

The June 30, 2013 financial statements were compiled by us, and our report thereon, dated September 17, 2014, stated we did not audit or review those financial statements and, accordingly, express no opinion or any other form of assurance on them. Our compilation was prepared from financial statements audited by other auditors, whose reports for Visiting Nurse Association of South Central Connecticut, Inc. and CareSource, Inc., dated, October 17, 2013, expressed an unmodified opinion on those statements. In the combined compilation of the June 30, 2013 financial statements, all intercompany accounts and transactions were eliminated.



North Haven, Connecticut  
September 17, 2014

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

COMBINED BALANCE SHEETS

June 30, 2014 and 2013

ASSETS

	<u>2014</u> <u>(Audited)</u>	<u>2013</u> <u>(Compiled)</u>
Current Assets:		
Cash and Cash Equivalents	\$ 211,971	\$ 301,386
Accounts Receivable	1,662,836	1,743,996
Prepaid Expenses and Other	<u>70,697</u>	<u>83,058</u>
Total Current Assets	<u>1,945,504</u>	<u>2,128,440</u>
Property and Equipment, Less Accumulated Depreciation of \$2,458,784 and \$2,277,556	<u>309,436</u>	<u>426,966</u>
Assets Limited as to Use:		
Cash	14,571	14,232
Investments	<u>53,520</u>	<u>50,267</u>
Total Assets Limited as to Use	<u>68,091</u>	<u>64,499</u>
Other Assets	<u>155,319</u>	<u>168,662</u>
Total Assets	<u>\$2,478,350</u>	<u>\$2,788,567</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Line of Credit	\$ 175,000	\$ -
Current Portion of Capital Lease Obligations	36,046	113,484
Accounts Payable and Accrued Expenses	231,892	279,256
Accrued Payroll and Compensated Absences	890,898	896,551
Deferred Revenue	425,138	526,842
Estimated Third-Party Payor Settlements	<u>91,554</u>	<u>238,133</u>
Total Current Liabilities	1,850,528	2,054,266
Capital Lease Obligations, Less Current Portion	22,737	58,783
Other Liabilities	<u>206,866</u>	<u>192,617</u>
Total Liabilities	<u>2,080,131</u>	<u>2,305,666</u>
Net Assets:		
Unrestricted	383,648	468,669
Temporarily Restricted	<u>14,571</u>	<u>14,232</u>
Total Net Assets	<u>398,219</u>	<u>482,901</u>
Total Liabilities and Net Assets	<u>\$2,478,350</u>	<u>\$2,788,567</u>

See accompanying notes to combined financial statements.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

COMBINED STATEMENTS OF OPERATIONS

For the Years Ended June 30, 2014 and 2013

	<u>2014</u> <u>(Audited)</u>	<u>2013</u> <u>(Compiled)</u>
Operating Revenue:		
Net Patient Service Revenue	\$13,483,001	\$14,604,820
Provision for Uncollectible Accounts	( 57,000 )	( 229,167 )
Net Patient Service Revenue, Less Provision for Uncollectible Accounts	13,426,001	14,375,653
Grant Revenue and United Way Allocation	536,013	602,888
Contributions and Fundraising Income, Net	83,944	111,102
Investment Income	4,641	2,517
Other	17,269	18,096
Net Assets Released From Restrictions Used For Operations	<u>3,172</u>	<u>4,833</u>
Total Revenue, Gains and Other Support	<u>14,071,040</u>	<u>15,115,089</u>
Operating Expenses:		
Salaries and Wages	10,261,745	10,996,584
Payroll Taxes and Employee Benefits	1,768,895	1,788,456
Supplies and Other Expenses	756,357	754,021
Medical Supplies	150,304	112,131
Professional Fees and Contracted Services	284,856	454,625
Occupancy	469,226	474,869
Transportation	259,771	296,601
Depreciation and Amortization	190,588	229,997
Interest	<u>14,319</u>	<u>26,154</u>
Total Expenses	<u>14,156,061</u>	<u>15,133,438</u>
Operating Loss	<u>(\$ 85,021 )</u>	<u>(\$ 18,349 )</u>

See accompanying notes to combined financial statements.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

COMBINED STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended June 30, 2014 and 2013

	2014 <u>(Audited)</u>	2013 <u>(Compiled)</u>
Unrestricted Net Assets:		
Operating Loss	( <u>\$ 85,021</u> )	( <u>\$ 18,349</u> )
Temporarily Restricted Net Assets:		
Contributions	3,511	3,377
Net Assets Released From Restrictions Used For Operations	( <u>3,172</u> )	( <u>4,833</u> )
Increase (Decrease) in Temporarily Restricted Net Assets	<u>339</u>	<u>(1,456)</u>
 Change in Net Assets	 ( 84,682 )	 ( 19,805 )
Net Assets, Beginning of Year	<u>482,901</u>	<u>502,706</u>
Net Assets, End of Year	<u>\$398,219</u>	<u>\$482,901</u>

See accompanying notes to combined financial statements.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

COMBINED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2014

Cash Flows From Operating Activities:	
Change in Net Assets	(\$ 84,682 )
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	190,588
Restricted Contributions Received	( 3,377 )
Changes in Assets and Liabilities:	
(Increase) Decrease In:	
Accounts Receivable	81,160
Prepaid Expenses and Other	12,361
Other Asset	13,343
Increase (Decrease) In:	
Accounts Payable and Accrued Expenses	( 47,364 )
Accrued Payroll and Compensated Absences	( 5,653 )
Deferred Revenue	( 101,704 )
Estimated Third-Party Payor Settlements	( 146,579 )
Other Liabilities	<u>14,249</u>
Net Cash Used by Operating Activities	<u>( 77,658 )</u>
Cash Flows From Investing Activities:	
Purchase Of:	
Property and Equipment	( 89,273 )
Investments	<u>( 3,253 )</u>
Net Cash Used From Investing Activities	<u>( 92,526 )</u>
Cash Flows From Financing Activities:	
Issuance of Line of Credit, Net of Payments	175,000
Payment of Capital Lease Obligations	( 97,269 )
Restricted Contributions Received	<u>3,377</u>
Net Cash Provided From Financing Activities	<u>81,108</u>
Decrease in Cash and Cash Equivalents	( 89,076 )
Cash and Cash Equivalents at Beginning of Year	<u>315,618</u>
Cash and Cash Equivalents at End of Year	<u>\$226,542</u>
Supplemental Disclosure:	
Interest Paid	<u>\$ 14,319</u>

See accompanying notes to combined financial statements.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

Note 1 – Description of Organization

Organization and Principles of Combination

The combined financial statements of VNA Health Systems, Inc. and Affiliates (the Organization) include the financial statements of VNA Health Systems, Inc. (VNAHS), Visiting Nurse Association of South Central Connecticut, Inc. (VNA), and CareSource, Inc. (CSI). Intercompany accounts and transactions have been eliminated in combination.

VNAHS is a non-stock, tax-exempt holding corporation and is the sole member of VNA and CSI.

VNA is a non-stock, tax-exempt corporation that provides and administers a comprehensive, multi-disciplinary, therapeutic and public health nursing program to residents of forty-three cities and towns in Connecticut.

CSI is a non-stock, taxable corporation, which provides homemaking and aide services to residents at home throughout Connecticut.

Note 2 – Significant Accounting Policies

The Organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for Health Care Entities. The significant accounting and reporting policies used by the Organization are described subsequently to enhance the usefulness and understandability of the financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include checking and temporary savings and deposit accounts from surplus operating funds.



VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 2 – Significant Accounting Policies – Cont'd.

Investments and Investment Policy

Investments in equity securities and in debt securities are measured at fair value in the balance sheet, in accordance with FASB Codification 820-10, Fair Value Measurements and Disclosures. Investments are classified as trading. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in “excess of revenue over expenses”, unless the income is restricted by donor or law.

The Organization has adopted investment policies for its long-term investment portfolio. The investment policy is established by the Finance Committee of the Board of Directors and is monitored and reviewed on an ongoing basis.

Assets Limited as to Use – Investments

Board-designated Investments (Endowments) – represent resources set aside by the Board of Directors over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Board-designated investments include all of the Organization’s long-term investments (see Notes 4 and 5).

Donor-restricted Term Investment (Endowments) – represents resources restricted by donors for use as specified by the donor or by the passage of time. Currently, the Organization has no term-restricted investments.

Donor-restricted Permanent Investment (Endowments) – represents resources restricted by donors with the stipulation that the contribution must remain intact in perpetuity. Currently, the Organization has no permanently restricted investments.

FASB ASC 958-205, Not-for-Profit Entities – Presentation of Financial Statements, provides guidance on net asset classification of donor-restricted funds for not-for-profit organizations that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and also requires additional disclosures about an organization’s endowment funds (both donor restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. The State of Connecticut has adopted UPMIFA, which established law for the management and investment of donor-restricted funds.

The Board of Directors and Management have determined that the Organization’s investment portfolios meet the definition of endowment under FASB ASC 985-205. However, the Board of Directors and Management have determined that the Organization’s net assets do not meet the definition of endowment under UPMIFA.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 2 – Significant Accounting Policies – Cont'd.

Assets Limited as to Use - Other

Assets limited as to use also includes cash of \$14,571 in 2014 and \$14,232 in 2013, which is for the following:

	2014 (Audited)	2013 (Compiled)
Greco Memorial Fund	\$ 8,921	\$ 8,921
Gunter Gunterman Scholarship Fund	1,195	1,195
Patient Assistance Fund	4,455	4,116
	<u>\$14,571</u>	<u>\$14,232</u>

Accounts Receivable, Allowance for Uncollectibles and Provision for Bad Debts

The Organization's accounts receivable collection process includes reviewing aging reports, contacting payors to determine why payment has not been made, resubmitting claims when appropriate, and filing appeals with payors for claims that have been denied. The Organization records an estimated allowance for uncollectible accounts by applying estimated bad debt percentages to its patient accounts receivable aging. The percentages to be applied are based on the Organization's historical collection and loss experience.

The Organization's allowance for doubtful accounts at June 30, 2014 was approximately \$153,000, and is recorded as a reduction against "Accounts Receivable". The Organization's provision for bad debts at June 30, 2014 was approximately \$57,000, and is recorded as a reduction against "Net Patient Service Revenue". The allowance for doubtful accounts is maintained at a level that management believes is sufficient to cover potential losses. However, actual collections could differ from estimates.

Property and Equipment and Depreciation

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Estimated useful lives range from three to twenty years.

Deferred Income Taxes

Deferred income taxes (CSI) arise from timing differences caused by income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or noncurrent, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from timing differences that are not related to an asset or a liability are classified as current or noncurrent depending on the periods in which the timing differences are expected to reverse. The principal sources of the timing differences are federal net operating loss carryforwards and the conversion from accrual to cash basis accounting for income tax reporting. A valuation allowance, if necessary, is provided for deferred tax assets whose future realization is unlikely.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 2 – Significant Accounting Policies – Cont'd.

Net Asset Classifications

In accordance with the provisions of FASB ASC 958-205, Not-for-Profit Entities – Presentation of Financial Statements, the Organization is required to report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- 1) Unrestricted Net Assets – represents unrestricted resources available for support of the Organization, including assets set aside by the Board of Directors, over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes.
- 2) Temporarily Restricted Net Assets – represents resources that are restricted by a donor for use for a particular purpose or in a particular future period, and income derived from permanently restricted net assets not yet expended in accordance with the donor's restriction. When the donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets.
- 3) Permanently Restricted Net Assets – represents resources received with the donor's stipulation that the contribution must remain intact in perpetuity. However, the income derived from permanently restricted net assets must be used in accordance with the donor's restriction. Currently, the Organization has no permanently restricted net assets.

Net Patient Service Revenue

The Organization has reimbursement agreements with third-party payors, including Medicare and Medicaid, that provide for payments to the Organization at amounts different from its established rates. Standard charges for services to all patients are recorded as revenue when services are rendered. Patients unable to pay full charge, who do not have other third-party resources, are charged a reduced amount based on the Organization's published sliding fee scale. Reductions in full charge are recognized when the service is rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. The Organization believes that it is in substantial compliance with all applicable laws and regulations. However, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in operating revenue in the year that such amounts become known.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 2 – Significant Accounting Policies – Cont'd.

Charity Care

The Organization provides care to patients, who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Recognition of Grant Revenue

The Organization recognizes grant revenue 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 Organization has not been informed by any funding organization of any funds, which are required to be returned.

Accounting for Contributions

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Unrestricted contributions are reported as increases in unrestricted net assets. Restricted contributions are reported as either temporarily or permanently restricted revenue 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 as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Rent and Other Liabilities

The Organization's lease of its office space provides for scheduled rent increases. The Organization's policy is to record rent expense on a straight-line basis over the lease term, which expires in January 2022. Amounts accrued in excess of the current required rental payment are reported and included in other liabilities in the accompanying balance sheets.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 2 – Significant Accounting Policies – Cont'd.

Income Taxes

VNAHS and VNA are exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and, accordingly, there is no provision for income taxes. Income determined to be unrelated business taxable income would be taxable. During the year ended June 30, 2014, VNAHS and VNA had no unrelated business income. CSI has no unrecognized tax benefits at June 30, 2014. The Organization is no longer subject to federal, state or local tax examinations by tax authorities for years before and including fiscal year ended June 30, 2010.

The Organization, in accordance with the provisions of FASB ASC 740, Accounting for Uncertainty in Income Taxes, evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of any required tax filings and discussions with outside experts.

Excess (Deficiency) of Revenue Over Expenses (Operating Loss)

The statement of operations includes “excess (deficiency) of revenue over expenses” (operating loss). Changes in unrestricted net assets, which are excluded from “excess (deficiency) of revenue over expenses” (operating loss), consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for purposes of acquiring such assets).

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through September 17, 2014, which is the date the financial statements were available to be issued.

Note 3 – Fair Value Measurements

In accordance with FASB ASC 820-10, Fair Value Measurements and Disclosures, the Organization is required to measure fair value of its assets and liabilities. Fair value measurements are based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard established a fair value hierarchy that prioritizes observable and unobservable inputs to measure fair value into three levels, as follows:

Level 1: Valuations based on quoted prices in active markets for identical asset or liabilities to which an entity has access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations based on unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The Organization’s carrying amounts for all assets and liabilities, which are required to be measured at fair value, approximate fair value under Level 1.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 4– Investments – Board Designated

Long-term investments at June 30, 2014 consist of:

	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u> Quoted Prices In Active Market For Identical Assets (Level 1)
Mutual Funds:		
Large Blend	\$28,178	\$28,178
Fixed Income	<u>25,342</u>	<u>25,342</u>
Total	<u>\$53,520</u>	<u>\$53,520</u>

Note 5 – Changes in Board-Designated Investments

The Board of Directors has designated investments of \$53,520 in 2014 as long-term investments.

Changes in Board-designated investments for the year ended June 30, 2014 are as follows:

Beginning Balance	\$50,267
Investment Return:	
Investment Income	441
Net Appreciation	<u>2,812</u>
Ending Balance	<u>\$53,520</u>

Note 6 – Assets Held in Trust

The Organization was named an income beneficiary of the Ella E. Smith Fund (Smith Fund), the Visiting Nurse Association of South Central Connecticut Fund (VNA Fund), and the Martha W.R. Wayland Fund (Wayland Fund), all held at the Community Foundation for 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, 2014 totaled approximately \$271,000 (unaudited). Distributions of \$4,733 from the Smith Fund, \$4,499 from the VNA Fund, and \$1,278 from the Wayland Fund were received in December 2013 and are included in contribution revenue. The distributions can be used for general operating purposes.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 7 – Property and Equipment

Property and equipment at June 30, 2014 consisted of:

Leasehold Improvements	\$ 258,991
Furniture and Equipment	776,079
Computer Equipment and Software	<u>1,733,150</u>
	<u>2,768,220</u>
Less, Accumulated Depreciation:	
Leasehold Improvements	228,075
Furniture and Equipment	693,432
Computer Equipment and Software	<u>1,537,277</u>
	<u>2,458,784</u>
Net	<u>\$ 309,436</u>

Note 8 – Deferred Income Taxes

As of June 30, 2014, the CSI net deferred tax asset consists of deferred tax assets of approximately \$164,000 and deferred tax liabilities of approximately \$39,000. The net deferred tax asset of \$125,000 is included in "Other Assets".

At June 30, 2014, CSI has net operating loss carryforwards available, which may provide future tax benefits:

<u>Expiration</u>	
2024	\$298,000
2025	<u>22,000</u>
	<u>\$320,000</u>

Note 9 – Line of Credit

The VNA has a line of credit with a bank that allows a maximum amount to be borrowed of the lesser of \$1,500,000 or the borrowing base as defined in the line of credit agreement. The interest rate on the line of credit is equal to the bank's prime rate (3.25% at June 30, 2014) plus 1%. The loan agreement has no expiration date, but can be withdrawn at the bank's option. The line of credit is secured by a first security position on all business assets of the VNA.

The amount outstanding on the line of credit at June 30, 2014 was \$175,000. The VNA had a maximum amount outstanding at any one time of \$275,000 during the year ended June 30, 2014.

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 10 – Capital Leases

The VNA leases certain equipment under capital lease obligations with terms expiring through June 2016. Future minimum payments under these leases are as follows:

Year ending June 30, 2015	\$39,389
Year ending June 30, 2016	<u>23,680</u>
Total minimum lease payments	63,069
Less, amount representing interest	<u>4,286</u>
Present value of net minimum lease payments	58,783
Less, current portion	<u>36,046</u>
Net, long-term portion	<u>\$22,737</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 6.37% and 8.53%. The capitalized costs as of June 30, 2014 is \$120,754, less accumulated amortization of \$51,702. Amortization expense for the equipment for the year ended June 30, 2014 was \$34,468.

Note 11 – Net Patient Service Revenue

Approximately eighty-nine percent in 2014 of net patient service revenue was derived under federal (Medicare and Veterans Administration) and state (Medicaid and Medicaid Waiver) third-party reimbursement programs. These revenues are subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of the Organization.

The Organization maintains a third-party payer reserve for potential revenue adjustments, disallowances or denials that arise from third-party or internal audit activities. The Organization's internal accounting policies and procedures states that a contingency reserve, based upon audit experience and other assumptions, must be maintained on the books. The reserve as of June 30, 2014 was \$91,554.

The Organization has entered into agreements with certain commercial insurance carriers, managed care organizations, and other health care groups. The bases for payment to the Organization under these agreements are negotiated rates at less than the Organization's regular published charges.

Net patient service revenue is as follows for the year ended June 30, 2014:

Federal Programs	\$ 6,266,941
State Programs	5,694,823
Other Third Parties	1,083,958
Private Pay	<u>437,279</u>
	<u>\$13,483,001</u>



VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 12 – Pension Plan

Certain employees of the Organization, who have met specified age and length of service requirements, are covered by a defined contribution retirement plan, which includes a 401(k) component. Retirement plan expense was approximately 2% of covered wages, less forfeitures for nonvested account balances for the year ended June 30, 2014.

Retirement plan expense for the year ended June 30, 2014 was \$147,885.

Note 13 – Workers' Compensation

The Organization is a member of the Workers' Compensation Trust, Inc. (the Trust), which was established as an employer mutual association to provide workers' compensation coverage to injured employees of Connecticut health care organizations. The Trust is designed to provide member workers' compensation insurance, improved loss control programs and other services to help minimize workers' compensation claims and the associated costs. The Organization has workers' compensation insurance premium expense paid to the Trust of \$180,141 for the year ended June 30, 2014, and is included in "Payroll Taxes and Employee Benefits".

Note 14 – Operating Leases

The Organization leases office space under an operating lease, which expires in January 2022. Rental expense amounted to \$382,065 for the year ended June 30, 2014.

At June 30, 2014, minimum future lease payments, for each of the next five years and in the aggregate, are as follows:

2015	\$ 377,012
2016	386,437
2017	396,099
2018	406,001
2019	416,151
Subsequent to 2020	<u>1,122,498</u>
Total	<u>\$3,104,198</u>

Note 15 – Functional Expenses

Expenses, by function, for the year ended June 30, 2014 were as follows:

Home Care – Skilled Service	\$10,509,385
Home Care – Support Service	836,774
General and Administrative	2,745,091
Fundraising	<u>64,811</u>
Total	<u>\$14,156,061</u>

VNA HEALTH SYSTEMS, INC. AND AFFILIATES  
New Haven, Connecticut

NOTES TO COMBINED FINANCIAL STATEMENTS – CONT'D.

For the Year Ended June 30, 2014

Note 16 – Concentration of Risk

Amounts held in financial institutions are in excess of the Federal Deposit Insurance Corporation. The Organization deposits its funds with high quality financial institutions, and management believes the Organization is not exposed to significant credit risk on those amounts.

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payors is as follows:

Federal Programs	53%
State Programs	35
Other Third Parties	8
Private Pay	<u>4</u>
	<u>100%</u>

A significant portion of the Organization's net patient service revenue comes from federal and state reimbursement programs. (See Note 11)

Note 17 – Related-Party Transactions

Two members of the Board of Directors are employed by the Yale Health System. The Yale Health System refers patients, who are in need of home care services, to the Organization in the ordinary course of business. The patients' services are paid by a third-party payor. No compensation is paid to or received from the Board members.

Note 18 – Collective Bargaining Agreements

Approximately 52% of the VNA's labor force is covered by three separate collective bargaining agreements, which expire at various times between May 15, 2015 and May 31, 2016.

Note 19 – Risks and Uncertainties

Because a high percentage of the Organization's revenue is derived from Federal and State reimbursement programs, reductions in rates, rate increases that do not cover cost increases, and/or significant changes to the payment methodologies could have a material adverse effect on the Organization's financial condition, including results of operations and cash flows, and may require the Organization to revise ways in which business is conducted.

The Organization invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported.