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VISITING NURSE AND COMMUNITY HEALTH
FOUNDATION, INC. AND AFFILIATE
AUDITED CONSOLIDATED
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED
FINANCIAL STATEMENTS

Board of Directors
Visiting Nurse and Community Health
Foundation, Inc. and Affiliate
Arlington, Massachusetts

We have audited the accompanying consolidated balance sheets of Visiting Nurse and Community Health Foundation, Inc. and Affiliate, at June 30, 2010 and 2009, and the related consolidated statements of operations, consolidated changes in net assets and of consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Visiting Nurse and Community Health Foundation, Inc. and Affiliate at June 30, 2010 and 2009, and the consolidated changes in its net assets and its consolidated cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America



Concord, New Hampshire
October 12, 2010

VISITING NURSE AND COMMUNITY HEALTH FOUNDATION, INC.
AND AFFILIATE

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2010 AND 2009

ASSETS

	2010	2009
Current Assets		
Cash and cash equivalents	\$ 486,974	\$ 353,780
Temporary investments	83,500	201,774
Patient accounts receivable, less allowances for for uncollectible accounts of \$73,368 and \$66,178 at June 30, 2010 and 2009, respectively.	812,518	837,082
Prepaid expenses	58,230	38,408
Total Current Assets	1,441,222	1,431,044
Assets Limited As To Use	497,704	446,735
Property And Equipment, Net	187,573	140,535
TOTAL ASSETS	\$ 2,126,499	\$ 2,018,314

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	\$ 257,214	\$ 159,621
Accrued payroll and related expenses	287,009	258,740
Note payable, current maturity	46,738	-
Due to third-party payors	21,000	21,000
Deferred revenue	346,533	371,611
Total Current Liabilities	958,494	810,972
Net Assets		
Unrestricted	1,168,005	1,198,942
Temporarily restricted	-	8,400
Total Net Assets	1,168,005	1,207,342
TOTAL LIABILITIES AND NET ASSETS	\$ 2,126,499	\$ 2,018,314

(See accompanying notes to these consolidated financial statements)

VISITING NURSE AND COMMUNITY HEALTH FOUNDATION, INC.
AND AFFILIATE

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Operating Revenue		
Net patient service revenue	\$ 5,223,563	\$ 4,952,472
Other operating revenue	14,413	37,151
Net assets released from restriction for operations	8,950	-
Total Operating Revenue	5,246,926	4,989,623
Operating Expenses		
Salaries and related expenses	4,370,825	3,904,240
Other operating expenses	958,207	782,213
Depreciation and amortization	65,046	56,587
Bad debts	35,512	37,919
Interest expense	2,515	2,268
Total Operating Expenses	5,432,105	4,783,227
OPERATING (LOSS) INCOME	(185,179)	206,396
Other Revenue and Gains		
Contributions	81,592	35,006
Investment income	16,650	18,916
Recognized gain (loss) on investment transactions	20,300	(38,389)
Total Other Revenue and Gains	118,542	15,533
(DEFICIT) EXCESS OF REVENUE OVER EXPENSES	(66,637)	221,929
Net assets released from restriction for capital acquisition	35,700	-
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(30,937)	221,929

(See accompanying notes to these consolidated financial statements)

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VISITING NURSE AND COMMUNITY HEALTH FOUNDATION, INC.
AND AFFILIATE

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance, June 30, 2008	\$ 977,013	\$ -	\$ 977,013
Excess of revenue over expenses	221,929	-	221,929
Contributions	-	8,400	8,400
Change in Net Assets	<u>221,929</u>	<u>8,400</u>	<u>230,329</u>
Balance, June 30, 2009	<u>\$ 1,198,942</u>	<u>\$ 8,400</u>	<u>\$ 1,207,342</u>
Deficit of revenue over expenses	(66,637)	-	(66,637)
Contributions	-	36,250	36,250
Net assets released from restrictions for operations	-	(8,950)	(8,950)
Net assets released from restrictions for capital acquisitions	<u>35,700</u>	<u>(35,700)</u>	<u>-</u>
Change in Net Assets	<u>(30,937)</u>	<u>(8,400)</u>	<u>(39,337)</u>
Balance, June 30, 2010	<u><u>\$ 1,168,005</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,168,005</u></u>

(See accompanying notes to these consolidated financial statements)

VISITING NURSE AND COMMUNITY HEALTH FOUNDATION, INC.
AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	\$ (39,337)	\$ 230,329
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debts	35,512	37,919
Depreciation and amortization	65,046	56,587
Recognized (gain) loss on investment transactions	(20,300)	38,389
Restricted contributions	(36,250)	(8,400)
(Increase) decrease in the following assets:		
Temporary investments	118,274	(201,774)
Patient accounts receivable	(10,948)	(20,901)
Prepaid expenses	(19,822)	62,904
Increase (decrease) in the following liabilities:		
Accounts payable and accrued expenses	97,593	(21,548)
Accrued payroll and related expenses	28,269	26,785
Deferred revenue	(25,078)	88,484
Net Cash Provided by Operating Activities	192,959	288,774
Cash Flows From Investing Activities		
Capital expenditures	(112,084)	(93,532)
Restricted contributions	36,250	8,400
Increase in assets as to limited use	(30,669)	(77,346)
Net Cash Used by Investing Activities	(106,503)	(162,478)
Cash Flows From Financing Activities		
Principal payments on long-term debt, net of advances	46,738	(39,746)
Net Cash Provided (Used) By Financing Activities	46,738	(39,746)

See accompanying notes to these consolidated financial statements

VISITING NURSE AND COMMUNITY HEALTH FOUNDATION, INC.
AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Net Increase in Cash and Cash Equivalents	133,194	86,550
Cash and cash equivalents, beginning of year	<u>353,780</u>	<u>267,230</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 486,974</u>	<u>\$ 353,780</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 2,515	\$ 2,268

See accompanying notes to these consolidated financial statements

VISITING NURSE AND COMMUNITY HEALTH FOUNDATION, INC.
AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The consolidated financial statements include the accounts of Visiting Nurse and Community Health Foundation, Inc. and its Affiliate; Visiting Nurse and Community Health, Inc., collectively referred to as "the Association." All significant inter-company balances and transactions have been eliminated in consolidation.

The Visiting Nurse and Community Health Foundation, Inc., "the Foundation," is a non-stock, non-profit corporation organized in Massachusetts. The Association is exempt from federal income taxes under the Internal Revenue Code Section 501(c) (3). The Foundation's primary purposes are to act as a holding company.

Visiting Nurse and Community Health, Inc. "(VNCH)" is a non-stock, non-profit corporation in Massachusetts, whose primary purposes are to provide home health care. Visiting Nurse and Community Health, Inc. (VNCH) is exempt from federal income taxes under the Internal Revenue Code Section 501(c)(3).

At June 30, 2009, all net assets held in the Foundation were transferred to VNCH.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use. Short-term highly liquid investments with an original maturity of more than three months are classified as temporary investments.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments in equity and debt securities are reported at fair value. Investment income and the recognized change in fair value are included in the excess of revenue over expenses unless otherwise stipulated by the donor or State law.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets, statements of operations, and changes in net assets.

Property and Equipment

Property and equipment are carried at cost. Maintenance repairs and minor renewals are expensed as incurred and renewals and betterments are capitalized. Depreciation is computed using the straight-line method provided over the useful life of each class of depreciable asset.

Assets Limited As To Use

Assets limited as to use include assets designated by the governing board or restricted by donors.

Temporarily and Permanently Restricted Net Assets

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, 2010 there were no temporarily restricted net assets. At June 30, 2009, temporarily restricted net assets amounted to \$8,400.

Permanently restricted net assets have been restricted by donors to be maintained by the Association in perpetuity. There were no permanently restricted net assets.

Patient Service Revenue

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 Association's published sliding fee scale. Reductions in full charge are recognized when the service is rendered.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care Policy

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. Because the Association does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Charity care at the Association's established rates amounted to \$23,384 and \$19,760 at June 30, 2010 and 2009, respectively.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

(Deficit) Excess of Revenue Over Expenses

The consolidated Statements of Operations reflect the (deficit) excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the (deficit) excess of revenue over expenses, consistent with industry practice are 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 the purposes of acquiring such assets).

New Accounting Pronouncements

In June 2009, the FASB issued, The FASB Accounting Standards Codification (the Codification). The Codification is the single source of authoritative non-governmental U.S. generally accepted accounting principles and is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Association adopted the Codification as of June 30, 2010. The adoption of the Codification was not material to the Association's consolidated balance sheet as of June 30, 2010 or its statement of operations and changes in net assets for the year ended June 30, 2010.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In May 2009, the FASB issued ASC Topic 855, *Subsequent Events*. Topic 855 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date based on the requirements of Topic 855. The Association adopted the provisions of Topic 855 as of June 30, 2010.

NOTE 2 INVESTMENTS

Investments are stated at fair value and consisted of the following at June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 121,127	\$ 53,513
Debt securities	28,324	128,328
Equity securities	<u>348,253</u>	<u>256,494</u>
Total	<u>\$ 497,704</u>	<u>\$ 438,335</u>

Cash and cash equivalents included in investments are excluded from cash and cash equivalents for cash flow purposes.

Financial accounting standards established a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs - quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroborations, for substantially the full term of the financial instrument.
- Level 3 inputs - unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

An investment's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

NOTE 2 INVESTMENTS (CONTINUED)

The following table provides the investments carried at fair value measured on a recurring basis as of June 30, 2010.

	Total Carrying Value at June 30, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments	<u>\$ 497,704</u>	<u>\$ 497,704</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 3 ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ -	\$ 8,400
Investments (Note 2)	<u>497,704</u>	<u>438,335</u>
Total	<u>\$ 497,704</u>	<u>\$ 446,735</u>
Designated by the governing board - for future use	\$ 497,704	\$ 438,335
Donor temporarily restricted	<u>-</u>	<u>8,400</u>
Total	<u>\$ 497,704</u>	<u>\$ 446,735</u>

Cash and cash equivalents included in assets limited as to use are excluded from cash and cash equivalents for cash flow purposes.

NOTE 4 PROPERTY AND EQUIPMENT

The cost and accumulated depreciation of property and equipment at June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Property and equipment	\$ 543,069	\$ 430,985
Leasehold improvements	53,729	53,729
Capital lease	<u>154,158</u>	<u>339,158</u>
Total Cost	750,956	823,872
Less, accumulated depreciation	<u>563,383</u>	<u>683,337</u>
Property and Equipment, Net	<u>\$ 187,573</u>	<u>\$ 140,535</u>

NOTE 5 LINE OF CREDIT

The Foundation has a \$300,000 line of credit with a local bank through December 31, 2010, collateralized by all business assets, with the interest rate at prime plus .50% (3.75% at June 30, 2010). There was no outstanding balance for the years ended June 30, 2010 and 2009.

NOTE 6 NOTE PAYABLE

In March, 2010 the Association obtained an \$81,000 note payable, from a local bank, for patient equipment. The loan is amortized over 48 months with monthly principal payments of \$1,687 plus interest of 3.59%. The note is collateralized by a certificate of deposit held by the same bank. The note payable is due and payable in full in April, 2014. It is the intention of management to pay the note payable in full during the year ended June 30, 2011.

NOTE 7 NET PATIENT SERVICE REVENUE

The Association has agreements with third-party payers that provide for payments to the Association at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

- Medicare, under the home health benefit, reimburses the Association at prospective rates based on a 60-day episode of care. The prospective rates are not subject to retroactive adjustment.
- Medicaid, under the home health benefit, reimburses the Association at statewide prospectively determined rates per service. The prospectively determined rates are not subject to retroactive adjustment.

NOTE 7 NET PATIENT SERVICE REVENUE (CONTINUED)

- Harvard Freedom, under the home health benefit, reimburses VNCH at prospective rates based on a 60-day episode of care. The prospective rates are not subject to retroactive adjustment.

The Association also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations.

Net patient service revenue provided for the years ended June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Medicare	\$ 3,750,564	\$ 3,464,548
Medicaid	25,662	34,892
Other third-party payers	1,375,470	1,408,282
Private pay	<u>71,867</u>	<u>44,750</u>
Total	<u>\$ 5,223,563</u>	<u>\$ 4,952,472</u>

NOTE 8 FUNCTIONAL EXPENSE

The Association provides various services to residents within its service area. Expenses related to providing these services for the year ended June 30, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Home care services	\$ 4,541,016	\$ 3,946,616
Administrative and general	<u>891,089</u>	<u>836,611</u>
Total	<u>\$ 5,432,105</u>	<u>\$ 4,783,227</u>

NOTE 9 RETIREMENT PLAN

The Association has a qualified 401(k) defined contribution plan that covers substantially all employees who have completed one year of service with a minimum of 1,000 hours of service, and have attained age 21. The plan allows employees to contribute to the plan by electing to defer a portion of their compensation, within IRS limits. Employee contributions are always 100% vested.

NOTE 9 RETIREMENT PLAN (CONTINUED)

The 401(k) plan also provides for the board of directors to determine the employer's contribution on an annual basis. Employees are vested in the employer's contributions over a five-year period upon meeting other plan requirements. The employer's contribution was 2% for the years ended June 30, 2010 and 2009 and amounted to \$32,572 and \$32,832, respectively.

NOTE 10 CONCENTRATION OF RISK

The Association grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. At June 30, 2010, Medicare represented 59% of the gross accounts receivable. No other individual payer source exceeded 10% of the gross accounts receivable balance.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred.

The following is a schedule by year of future minimum lease payments under an operating lease for office facilities that have initial or remaining lease terms in excess of one year as of June 30, 2010.

<u>Year Ending June 30,</u>	<u>Minimum Lease Payments</u>
2011	\$ 118,018
2012	118,944
2013	118,944
2014	119,888
2015 and thereafter	<u>160,480</u>
Total	<u>\$ 636,274</u>

Rental expense amounted to \$116,166 and \$115,200 for the years ended June 30, 2010 and 2009, respectively.

NOTE 12 MALPRACTICE INSURANCE

The Association insures its medical malpractice risks on a claims-made basis. There were no known malpractice claims outstanding at June 30, 2010, which in the opinion of management, will be settled for amounts in excess of insurance coverage; nor are there any unasserted claims or incidents which require loss accrual. The Association intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

NOTE 13 SUBSEQUENT EVENTS

For financial reporting purposes, subsequent events have been evaluated by management through October 12, 2010, which is the date the financial statements were available to be issued.