

**INSTRUCTIVE VISITING NURSE
ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED
FINANCIAL STATEMENTS**

December 31, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Instructive Visiting Nurse Association
and Subsidiaries
Richmond, Virginia

We have audited the accompanying consolidated statements of financial position of Instructive Visiting Nurse Association and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of activities, functional expenses, and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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 Instructive Visiting Nurse Association and its subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information on pages 19 - 26 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of activities of the individual organizations. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Wells, Coleman & Company, L.L.P.

June 12, 2009

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**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents	\$ 398,304	\$ 190,158
Accounts receivable, net of allowance for doubtful accounts of \$272,919 in 2008 and \$353,851 in 2007	506,691	763,590
Inventories	33,215	16,790
Prepaid expenses	<u>62,350</u>	<u>49,074</u>
Total current assets	<u>1,000,560</u>	<u>1,019,612</u>
Property and Equipment		
Building and building improvements	2,498,123	2,482,629
Furniture and fixtures	303,944	324,322
Equipment	<u>1,753,303</u>	<u>1,907,081</u>
	4,555,370	4,714,032
Accumulated depreciation	<u>(2,759,518)</u>	<u>(2,745,956)</u>
Net property and equipment	<u>1,795,852</u>	<u>1,968,076</u>
Other Assets		
Investments	1,000	3,828,859
Deferred bond issuance costs, net of accumulated amortization of \$24,782 in 2008 and \$21,618 in 2007	54,307	57,471
Cash surrender value of life insurance	90,384	81,371
Beneficial interest in perpetual trusts	<u>3,540,950</u>	<u>5,006,531</u>
Total other assets	<u>3,686,641</u>	<u>8,974,232</u>
	<u>\$ 6,483,053</u>	<u>\$ 11,961,920</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current Liabilities		
Line of credit - bank	\$ -	\$ 85,000
Bond payable - current portion	50,000	100,000
Obligations under capital leases - current portion	8,505	35,604
Accounts payable and accrued liabilities	565,431	782,255
Deferred revenue	<u>160,045</u>	<u>187,061</u>
Total current liabilities	<u>783,981</u>	<u>1,189,920</u>
Long-Term Liabilities		
Obligations under capital leases	-	8,150
Bond payable	<u>1,450,000</u>	<u>2,960,000</u>
Total long-term liabilities	<u>1,450,000</u>	<u>2,968,150</u>
Total liabilities	<u>2,233,981</u>	<u>4,158,070</u>
Net Assets		
Unrestricted	695,261	2,586,548
Temporarily restricted	12,861	210,771
Permanently restricted	<u>3,540,950</u>	<u>5,006,531</u>
Total net assets	<u>4,249,072</u>	<u>7,803,850</u>
	<u>\$ 6,483,053</u>	<u>\$ 11,961,920</u>

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended December 31, 2008

	2008			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Net patient revenue	\$ 4,433,383	\$ -	\$ -	\$ 4,433,383
Contributions and grants	727,330	1,793	-	729,123
Other revenue	391,727	-	-	391,727
Interest income	5,211	-	-	5,211
Realized and unrealized gains and losses on investments	(1,138,637)	-	-	(1,138,637)
Change in market value of beneficial interests in perpetual trusts	-	-	(1,465,581)	(1,465,581)
Dividend income	94,327	-	-	94,327
	<u>4,513,341</u>	<u>1,793</u>	<u>(1,465,581)</u>	<u>3,049,553</u>
Net assets released from restrictions	<u>199,703</u>	<u>(199,703)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>4,713,044</u>	<u>(197,910)</u>	<u>(1,465,581)</u>	<u>3,049,553</u>
Expenses				
Program services	5,790,902	-	-	5,790,902
Management and general	626,815	-	-	626,815
Fundraising	186,614	-	-	186,614
	<u>6,604,331</u>	<u>-</u>	<u>-</u>	<u>6,604,331</u>
Change in net assets	(1,891,287)	(197,910)	(1,465,581)	(3,554,778)
Net Assets, beginning of year	<u>2,586,548</u>	<u>210,771</u>	<u>5,006,531</u>	<u>7,803,850</u>
Net Assets, end of year	<u>\$ 695,261</u>	<u>\$ 12,861</u>	<u>\$ 3,540,950</u>	<u>\$ 4,249,072</u>

See accompanying notes to consolidated financial statements.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended December 31, 2007

	2007			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and Support				
Net patient revenue	\$ 5,662,708	\$ -	\$ -	\$ 5,662,708
Contributions and grants	805,308	186,987	-	992,295
Other revenue	128,212	-	-	128,212
Interest income	77,110	-	-	77,110
Realized and unrealized gains and losses on investments	195,553	-	-	195,553
Change in market value of beneficial interests in perpetual trusts	-	-	108,648	108,648
Dividend income	275,006	-	-	275,006
	7,143,897	186,987	108,648	7,439,532
Net assets released from restrictions	190,038	(190,038)	-	-
Total revenue and support	7,333,935	(3,051)	108,648	7,439,532
Expenses				
Program services	6,404,744	-	-	6,404,744
Management and general	1,765,691	-	-	1,765,691
Total expenses	8,170,435	-	-	8,170,435
Change in net assets	(836,500)	(3,051)	108,648	(730,903)
Net Assets, beginning of year, as previously stated	3,067,865	469,005	4,897,883	8,434,753
Prior period adjustments	355,183	(255,183)	-	100,000
Net Assets, beginning of year as restated	3,423,048	213,822	4,897,883	8,534,753
Net Assets, end of year	\$ 2,586,548	\$ 210,771	\$ 5,006,531	\$ 7,803,850

See accompanying notes to consolidated financial statements.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2008

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 3,722,366	\$ 345,500	\$ 25,000	\$ 4,092,866
Employee benefits	625,411	29,051	3,196	657,658
Supplies and other expenses	963,099	80,593	158,418	1,202,110
Technology	210,912	19,174	-	230,086
Occupancy	85,727	42,289	-	128,016
Depreciation and amortization	122,245	68,635	-	190,880
Bad debt expense	1,842	-	-	1,842
Interest	59,300	41,573	-	100,873
	<u>\$ 5,790,902</u>	<u>\$ 626,815</u>	<u>\$ 186,614</u>	<u>\$ 6,604,331</u>

See accompanying notes to consolidated financial statements.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2007

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 3,851,248	\$ 1,168,338	\$ -	\$ 5,019,586
Employee benefits	649,394	227,931	-	877,325
Supplies and other expenses	1,118,364	279,591	-	1,397,955
Technology	165,814	14,419	-	180,233
Occupancy	96,272	47,418	-	143,690
Depreciation and amortization	261,739	516	-	262,255
Bad debt expense	147,186	-	-	147,186
Interest	114,727	27,478	-	142,205
	<u>\$ 6,404,744</u>	<u>\$ 1,765,691</u>	<u>\$ -</u>	<u>\$ 8,170,435</u>

See accompanying notes to consolidated financial statements.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (3,554,778)	\$ (730,903)
Adjustments to reconcile change in net assets to net cash and cash equivalents used by operating activities		
Increase in cash surrender value of life insurance	(9,013)	(81,371)
Depreciation and amortization	190,880	262,255
Disposal of fixed assets	(2,200)	(1,227)
Allowance for bad debts	(80,932)	147,186
Unrealized gain on investments	-	(1,777)
Realized (gains) losses on investments	1,138,637	(193,777)
Beneficial interests in perpetual trusts	1,465,581	(108,648)
 (Increase) decrease in operating assets		
Accounts receivable	337,831	(501,230)
Accrued interest receivable	-	14,140
Grants receivable	-	38,200
Inventories	(16,425)	23,888
Prepaid expenses	(13,276)	(10,792)
 Increase (decrease) in operating liabilities		
Accounts payable and accrued liabilities	(216,824)	27,976
Deferred revenue	(27,016)	145,063
	<u> </u>	<u> </u>
Net cash and cash equivalents used by operating activities	<u>(787,535)</u>	<u>(971,017)</u>
 Cash Flows from Investing Activities		
Purchase of property and equipment	(15,492)	(102,078)
Proceeds from sale of fixed assets	2,200	-
Proceeds from sale of investments	3,449,693	2,172,472
Purchase of investments	(760,471)	(989,601)
	<u> </u>	<u> </u>
Net cash and cash equivalents provided by investing activities	<u>2,675,930</u>	<u>1,080,793</u>

- Continued -

See accompanying notes to consolidated financial statements.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Financing Activities		
Principal payments on debt	(3,120,000)	(95,000)
Proceeds from issuance of debt	1,560,000	-
Payments on line of credit	(85,000)	(290,000)
Principal payments on capital leases	<u>(35,249)</u>	<u>(153,203)</u>
 Net cash and cash equivalents used by financing activities	 <u>(1,680,249)</u>	 <u>(538,203)</u>
 Net increase (decrease) in cash and cash equivalents	 208,146	 (428,427)
 Cash and Cash Equivalents, beginning of year	 <u>190,158</u>	 <u>618,585</u>
 Cash and Cash Equivalents, end of year	 <u>\$ 398,304</u>	 <u>\$ 190,158</u>
 Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 100,873	\$ 142,205

See accompanying notes to consolidated financial statements.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

1. Summary of Significant Accounting Policies

Instructive Visiting Nurse Association (“IVNA” or “the Association”) is a not-for-profit corporation founded in 1900, chartered in 1902, restructured and re-incorporated in 1989. IVNA and its subsidiaries (collectively referred to as the Association) provide acute and custodial patient care, therapeutic, and case management services to individuals at their homes in the Richmond, Virginia metropolitan area. The Association grants credit on an unsecured basis to these patients. The subsidiaries are as follows:

IVNA Home Health Care - provides acute nursing and therapeutic services to home-bound patients.

IVNA Health Services - provides custodial patient care and case management services.

IVNA Foundation - holds and manages investments on behalf of the Association.

Basis of Presentation: The Association is required to report information regarding its financial position and activities according to three classes of net assets as follows:

- *Unrestricted* amounts are those currently available at the discretion of the board for use in the Association’s operations and those resources invested in property, plant, and equipment.
- *Temporarily Restricted* amounts are those which are stipulated by donors for specific operating purposes or for the acquisition of property, plant, and equipment. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- *Permanently Restricted* amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

All contributions are considered available for unrestricted use, unless specifically restricted by the donor subject to other legal restrictions.

Principles of Consolidation: The accompanying consolidated financial statements include not only the accounts of IVNA but also those of its subsidiaries, which are under the common control of IVNA, in accordance with Statement of Position (SOP) No. 94-3, *Reporting of Relating Entities by Not-for-Profit Organizations*. All significant intercompany transactions and balances have been eliminated in consolidation.

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

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

1. Summary of Significant Accounting Policies - Continued

Net Patient Revenue: Net patient revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated or actual retroactive adjustments under reimbursement agreements with third-party payors.

Approximately 70% and 68% of net patient service revenue in 2008 and 2007, respectively, was derived under federal and state third-party reimbursement programs. Retroactive adjustments are accrued on an estimated basis in the period that related services are rendered and adjusted in future periods based on current available data or as final settlements are determined.

Charity Care: The Association has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on analysis of financial information obtained from the patient. The Association bills the patient based on a sliding fee scale. The scale is adjusted based on the patient's ability to pay.

Cash Equivalents: The Association considers all short-term debt securities purchased with a maturity date of three months or less to be cash equivalents.

Credit Risk: Financial instruments which potentially subject the Association to concentration of credit risk consist principally of temporary cash investments, trade receivables, and amounts due from third-party payors under insurance program agreements. Concentrations of credit risk with respect to trade receivables are limited due to a large number of patients comprising the Association's patient base.

Community Awareness: The Association expenses the cost of community awareness and marketing as incurred.

Inventories: Inventories of medical supplies are stated at the lower-of-cost-or-market. Cost is determined by the first-in, first-out (FIFO) method.

Deferred Bond Issuance Costs: Costs incurred in connection with the issuance of bonds are amortized over the term of the related bonds.

Accounts Receivable: The Association utilizes the reserve method of accounting for contractual adjustments and bad debts. Accounts receivable are reported net of the estimated uncollectible accounts. Patient accounts are reviewed periodically and those deemed uncollectible are written off against the allowance account which is established based on industry experience and receivables collection history.

Investments: Investments with readily determinable fair market values are reported at fair market value in the consolidated statement of financial position. All gains and losses on investments for the year are reported in the consolidated statements of activities.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

1. Summary of Significant Accounting Policies - Continued

Property and Equipment: Purchases of property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the various assets. Amortization of capital leases is included in depreciation expense and accumulated depreciation.

Income Taxes: The Association is exempt from federal and state income taxes under Section 501(c) (3) of the Internal Revenue Code and the tax statutes of the Commonwealth of Virginia.

Beneficial Interest in Perpetual Trusts: Accounting principles generally accepted in the United States of America require that not-for-profit beneficiaries of perpetual trusts record, as a contribution and an asset, the present value of the estimated future cash receipts to be received from the trust, over the life of the trust. Due to the perpetual natures of these trusts, their future cash flow cannot be estimated. Under such circumstances, not-for-profit entities are permitted to base the present value measurement on the fair market value of the trust's assets. Changes in the trust's fair market value are recorded as permanently restricted gains or losses in the consolidated statement of activities.

Reclassifications: Certain prior year income and expense items have been reclassified to conform with the current year presentation.

2. Concentration of Credit Risk

From time to time, the Association maintains cash deposits at a commercial bank in excess of federal insurance limits.

3. Investments

Investments as of December 31, 2008 and 2007 are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Marketable securities	\$ -	\$ -	\$ 3,446,772	\$ 3,827,859
Investment in VNAA Development	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 3,447,772</u>	<u>\$ 3,828,859</u>

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

4. Line of Credit

The Association is indebted to a bank under the following line of credit:

	<u>2008</u>	<u>2007</u>
\$400,000 note payable under a line of credit, interest due monthly at LIBOR + 1.65% (6.875% at December 31, 2007), principal due on demand, secured by accounts receivable of IVNA Home Health Care. Guaranteed by IVNA Foundation.	\$ <u> -</u>	\$ <u> 85,000</u>

The Association must comply with certain restrictive covenants in accordance with the terms of the agreement. During 2008, the line of credit was paid in full by IVNA and not renewed by the bank.

5. Bond Payable

The Association is obligated under the following bond payable:

	<u>2008</u>	<u>2007</u>
\$3,500,000 bond payable to Henrico County, Virginia Industrial Development Authority, interest due monthly based on defined interest periods and a maximum rate of 13% (1.27% at December 31, 2008), principal payments due annually as defined by the bond agreement. Matures February 1, 2026, collateralized by real estate.	\$ 1,500,000	\$ 3,060,000
Current portion	<u>(50,000)</u>	<u>(100,000)</u>
	<u>\$ 1,450,000</u>	<u>\$ 2,960,000</u>

During 2008, the Association obtained a \$1,560,000 term loan with a bank to pay down the principal balance of the bonds. The loan was repaid in full during 2008 when a covenant related to the fair market values of investments used as collateral fell below the required amount.

Payment of the bond is collateralized by an irrevocable letter of credit issued by a bank which expires on September 1, 2009. The letter of credit bears interest at 1% annually and is collateralized by a deed of trust on the property owned by the Association.

In accordance with the 2008 debt restructuring agreement, the Association must maintain a debt service reserve fund in a separate account which is unavailable for general operating purposes. The balance of the reserve fund was \$110,434 at December 31, 2008.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

5. Bond Payable - Continued

The Association must comply with certain restrictive covenants in accordance with the terms of the letter of credit. Management is not aware of any violations of the covenants. The Association has executed a pledge on its corporate assets, and the Association may repay the bond prior to maturity without penalty.

Aggregate maturities of the bond in the succeeding five years are as follows:

2009	\$	50,000
2010	\$	55,000
2011	\$	55,000
2012	\$	55,000
2013	\$	60,000

6. Obligations Under Capital Leases

The Association has acquired equipment under lease agreements. The leases have been recorded as capital leases; as such, the asset and corresponding liability are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets acquired. The interest rates on the leases range from 2.0% to 3.5%, as imputed at the inception of each lease.

The following is a schedule of future minimum lease payments required under the capital leases for future years:

	<u>2008</u>	<u>2007</u>
December 31, 2008	\$ -	\$ 35,604
December 31, 2009	<u>8,543</u>	<u>8,543</u>
	8,543	44,147
Less amounts representing interest	<u>(38)</u>	<u>(393)</u>
Present value of minimum lease payments	8,505	43,754
Current portion of obligation under capital leases	<u>(8,505)</u>	<u>(35,604)</u>
Obligations under capital leases	<u>\$ -</u>	<u>\$ 8,150</u>

Leased equipment totaling \$735,053 and related accumulated depreciation totaling \$727,256 and \$680,317 at December 31, 2008 and 2007, respectively, have been included on the Association's consolidated statements of financial position. Depreciation expense of \$46,940 and \$107,301 related to the leased equipment has been included on the Association's consolidated statements of activities at December 31, 2008 and 2007, respectively.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

7. Retirement Plan

The Association provides a tax-deferred annuity arrangement (Plan) under IRS Section 403(b) which covers all eligible full-time and certain part-time employees. Each participant may elect to contribute a portion of their salary to the Plan.

Additionally, after the first year of employment, the Association annually contributes 4% of each participant's compensation to the Plan. The sum of the Association's contributions and eligible employee contributions may not exceed the lesser of 100% of each employee's compensation or \$45,000 annually. The Association's contributions are 100% vested to the participant after five years of service. The Association's expense under the Plan was \$51,337 for 2008 and \$74,521 for 2007.

8. Leases

The Association leases certain equipment under noncancelable operating leases. Future minimum rental commitments under these lease agreements are as follows:

2009	\$	122,080
2010	\$	12,780
2011	\$	6,564
2012	\$	547

Rent expense under these leases was \$148,924 and \$100,623 for the years ended December 31, 2008 and 2007, respectively.

9. Commitments and Contingencies

The Association's bond payable is collateralized by a letter of credit issued by a bank which expires September 1, 2009. Should the Association not renew the letter of credit or obtain a new letter of credit to collateralize the bonds, the bonds may be called by the issuer.

The Association is subject to legal proceedings and claims that arise in the course of providing health care services. The Association maintains malpractice insurance coverage for claims made during the term of the policy. No accrual for possible losses attributable to incidents that may have occurred but have not been reported to the Association or insurance carrier, has been made based on information that management has gathered, and the Association believes any such claims would be covered under its malpractice insurance policy.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

9. Commitments and Contingencies - Continued

Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services billed.

10. Beneficial Interest in Perpetual Trusts

The Association has a beneficial interest in several perpetual trusts, which are held by third parties. The Association's interests in the respective Trusts have been recorded as permanently restricted net assets in the consolidated statements of financial position.

The Association is a one-sixth beneficiary of a trust created under the will of Isaac and Helen T. Davenport (Davenport Trust). The Davenport Trust provides for the distribution of one-sixth of the greater of the Trust's annual net income or 5% of the Trust's annual value. The timing of each distribution is at the discretion of the trustee. The distributions are to be used by the Association for the care, maintenance, and/or treatment (as the case may be) of indigent, sick, and/or afflicted persons. The donor's restriction on the distribution coincides directly with the mission of the Association and, as such, has been recorded in the consolidated statement of activities as an unrestricted contribution.

The Association has a 1.85% beneficial interest in a trust created under the will of George Peebles Lumsden (Lumsden Trust). The Lumsden Trust qualifies as a private foundation as defined by IRC Section 501(a). As such, annual distributions to the Association are the greater of the Lumsden Trust's annual income, 5% of the Lumsden Trust's assets, or the minimum amount required to be distributed so as not to subject the Lumsden Trust to tax under IRS Section 4942, at the Association's pro rata share.

The Association has a 5% beneficial interest in the Elizabeth Potter Christian Charitable Trust (Christian Trust).

The following tables illustrate the fair market value of each Trust, the value of the beneficial interest in the respective trusts at December 31, 2008 and 2007, and the gains and losses recognized in the consolidated statements of activities.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

10. Beneficial Interest in Perpetual Trusts - Continued

	2008		
	Fair Value	Beneficial Interest	Market Value Gain/(Loss)
Davenport Trust	\$20,802,885	\$ 3,467,147	\$ (1,427,014)
Lumsden Trust	2,036,991	37,684	(20,855)
Christian Trust	368,140	36,119	(17,712)
Total	\$23,208,016	\$ 3,540,950	\$ (1,465,581)
	2007		
	Fair Value	Beneficial Interest	Market Value Gain/(Loss)
Davenport Trust	\$29,364,963	\$ 4,894,161	\$ 108,445
Lumsden Trust	3,164,273	58,539	(505)
Christian Trust	1,076,617	53,831	708
Total	\$33,605,853	\$ 5,006,531	\$ 108,648

11. Management Plans

Management devoted significant time during 2008 and the first six months of 2009 to restructuring debt, evaluating and changing service priorities, restructuring internal staff positions, seeking increased reimbursement rates on contracts with payors, and developing fundraising strategies for grant solicitations. Cost reduction measures were also developed and implemented in early 2008 and into 2009. New programmatic and financial monitoring systems were implemented allowing for rapid reporting and assessment. The Association's real estate was listed for sale in May 2009.

Given the seasonal nature of the Association's cash flow generation, management determined the periods of greatest cash flow needs and developed plans to increase revenue receipts and cover possible shortfalls during these periods. The need for additional grants and contributions being received prior to these identified cash shortfalls is critical in order to meet operational needs.

Management believes the Association is better positioned for growth and will benefit significantly from continued focus on fundraising, cost reduction, programmatic and service provision efficiency, community collaboration, and the sale of its real estate.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

12. Prior Period Adjustment

Beginning net assets as of December 31, 2007 have been restated to include the effect of correcting the classifications of certain unrestricted and temporarily restricted net assets based on donor stipulations. This includes a reclassification of \$100,000 previously reported as deferred revenue to temporarily restricted net assets.

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

December 31, 2008

	ASSETS				
	<u>IVNA</u>	<u>IVNA Home Health Care</u>	<u>IVNA Health Services</u>	<u>IVNA Foundation</u>	<u>Total</u>
Current Assets					
Cash and cash equivalents	\$ 207,090	\$ 63,492	\$ 86,207	\$ 41,515	\$ 398,304
Accounts receivable - net	-	414,383	92,308	-	506,691
Due from (to) affiliates	587,190	(646,366)	60,446	(1,270)	-
Inventories	-	12,657	20,558	-	33,215
Prepaid expenses	19,443	42,907	-	-	62,350
Total current assets	<u>813,723</u>	<u>(112,927)</u>	<u>259,519</u>	<u>40,245</u>	<u>1,000,560</u>
Property and Equipment					
Building and building improvements	2,498,123	-	-	-	2,498,123
Furniture and fixtures	230,922	73,022	-	-	303,944
Equipment	992,016	736,734	24,553	-	1,753,303
	<u>3,721,061</u>	<u>809,756</u>	<u>24,553</u>	<u>-</u>	<u>4,555,370</u>
Accumulated depreciation	(1,934,426)	(801,961)	(23,131)	-	(2,759,518)
Net property and equipment	<u>1,786,635</u>	<u>7,795</u>	<u>1,422</u>	<u>-</u>	<u>1,795,852</u>
Other Assets					
Investments	-	-	1,000	-	1,000
Deferred bond issuance costs - net	54,307	-	-	-	54,307
Cash surrender value of life insurance	-	-	-	90,384	90,384
Beneficial interest in perpetual trust	3,504,831	-	-	36,119	3,540,950
Total other assets	<u>3,559,138</u>	<u>-</u>	<u>1,000</u>	<u>126,503</u>	<u>3,686,641</u>
	<u>\$ 6,159,496</u>	<u>\$ (105,132)</u>	<u>\$ 261,941</u>	<u>\$ 166,748</u>	<u>\$ 6,483,053</u>

LIABILITIES AND NET ASSETS

	<u>IVNA</u>	<u>IVNA Home Health Care</u>	<u>IVNA Health Services</u>	<u>IVNA Foundation</u>	<u>Total</u>
Current Liabilities					
Line of credit - bank	\$ -	\$ -	\$ -	\$ -	\$ -
Bond payable - current portion	50,000	-	-	-	50,000
Obligations under capital leases - current portion	-	8,505	-	-	8,505
Accounts payable and accrued liabilities	159,285	284,097	122,049	-	565,431
Deferred revenue	<u>-</u>	<u>160,045</u>	<u>-</u>	<u>-</u>	<u>160,045</u>
Total current liabilities	209,285	452,647	122,049	-	783,981
Long-Term Liabilities					
Obligations under capital leases	-	-	-	-	-
Bond payable	<u>1,450,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,450,000</u>
Total liabilities	<u>1,659,285</u>	<u>452,647</u>	<u>122,049</u>	<u>-</u>	<u>2,233,981</u>
Net Assets					
Unrestricted	995,380	(570,640)	139,892	130,629	695,261
Temporarily restricted	-	12,861	-	-	12,861
Permanently restricted	<u>3,504,831</u>	<u>-</u>	<u>-</u>	<u>36,119</u>	<u>3,540,950</u>
Total net assets	<u>4,500,211</u>	<u>(557,779)</u>	<u>139,892</u>	<u>166,748</u>	<u>4,249,072</u>
	<u>\$ 6,159,496</u>	<u>\$ (105,132)</u>	<u>\$ 261,941</u>	<u>\$ 166,748</u>	<u>\$ 6,483,053</u>

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

December 31, 2007

	ASSETS				Total
	IVNA	IVNA Home Health Care	IVNA Health Services	IVNA Foundation	
Current Assets					
Cash and cash equivalents	\$ 23,070	\$ 44,403	\$ 80,891	\$ 41,794	\$ 190,158
Accounts receivable - net	-	520,584	243,006	-	763,590
Due from (to) affiliates	473,963	(659,048)	185,085	-	-
Inventories	-	10,672	6,118	-	16,790
Prepaid expenses	24,865	24,209	-	-	49,074
Total current assets	<u>521,898</u>	<u>(59,180)</u>	<u>515,100</u>	<u>41,794</u>	<u>1,019,612</u>
Property and Equipment					
Building and building improvements	2,482,629	-	-	-	2,482,629
Furniture and fixtures	230,922	93,400	-	-	324,322
Equipment	1,138,657	736,734	31,690	-	1,907,081
	3,852,208	830,134	31,690	-	4,714,032
Accumulated depreciation	(1,941,430)	(775,306)	(29,220)	-	(2,745,956)
Net property and equipment	<u>1,910,778</u>	<u>54,828</u>	<u>2,470</u>	<u>-</u>	<u>1,968,076</u>
Other Assets					
Investments	-	-	1,000	3,827,859	3,828,859
Deferred bond issuance costs - net	57,471	-	-	-	57,471
Cash surrender value of life insurance	-	-	-	81,371	81,371
Beneficial interest in perpetual trust	4,952,700	-	-	53,831	5,006,531
Total other assets	<u>5,010,171</u>	<u>-</u>	<u>1,000</u>	<u>3,963,061</u>	<u>8,974,232</u>
	<u>\$ 7,442,847</u>	<u>\$ (4,352)</u>	<u>\$ 518,570</u>	<u>\$ 4,004,855</u>	<u>\$ 11,961,920</u>

LIABILITIES AND NET ASSETS

	IVNA	IVNA Home Health Care	IVNA Health Services	IVNA Foundation	Total
Current Liabilities					
Line of credit - bank	\$ -	\$ 85,000	\$ -	\$ -	\$ 85,000
Bond payable - current portion	100,000	-	-	-	100,000
Obligations under capital leases - current portion	-	35,604	-	-	35,604
Accounts payable and accrued liabilities	279,967	237,424	264,864	-	782,255
Deferred revenue	-	187,061	-	-	187,061
	<u>-</u>	<u>187,061</u>	<u>-</u>	<u>-</u>	<u>187,061</u>
Total current liabilities	379,967	545,089	264,864	-	1,189,920
Long-Term Liabilities					
Obligations under capital leases	-	8,150	-	-	8,150
Bond payable	2,960,000	-	-	-	2,960,000
	<u>-</u>	<u>8,150</u>	<u>-</u>	<u>-</u>	<u>8,150</u>
Total liabilities	<u>3,339,967</u>	<u>553,239</u>	<u>264,864</u>	<u>-</u>	<u>4,158,070</u>
Net Assets					
Unrestricted	(964,820)	(653,362)	253,706	3,951,024	2,586,548
Temporarily restricted	115,000	95,771	-	-	210,771
Permanently restricted	4,952,700	-	-	53,831	5,006,531
	<u>(964,820)</u>	<u>(653,362)</u>	<u>253,706</u>	<u>3,951,024</u>	<u>2,586,548</u>
Total net assets	<u>4,102,880</u>	<u>(557,591)</u>	<u>253,706</u>	<u>4,004,855</u>	<u>7,803,850</u>
	<u>\$ 7,442,847</u>	<u>\$ (4,352)</u>	<u>\$ 518,570</u>	<u>\$ 4,004,855</u>	<u>\$ 11,961,920</u>

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the year ended December 31, 2008

	Unrestricted					
	IVNA	IVNA Home Health Care	IVNA Health Services	IVNA Foundation	Eliminating Entries	Total
Revenue and Support						
Net patient revenue	\$ -	\$2,539,908	\$1,893,475	\$ -	\$ -	\$ 4,433,383
Contributions and grants	201,181	304,955	50,000	171,194	-	727,330
Other revenue	312,693	12,291	73,166	207	(6,630)	391,727
Interest income	1,532	1,713	889	1,077	-	5,211
Realized and unrealized gains and losses on investments	-	-	-	(1,138,637)	-	(1,138,637)
Change in market value of beneficial interests in perpetual trusts	-	-	-	-	-	-
Dividend income	-	-	-	94,327	-	94,327
Fees from affiliates	337,475	-	-	-	(337,475)	-
Transfers from affiliates	<u>2,012,153</u>	<u>702,403</u>	<u>20,825</u>	<u>-</u>	<u>(2,735,381)</u>	-
	2,865,034	3,561,270	2,038,355	(871,832)	(3,079,486)	4,513,341
Net assets released from restrictions:	<u>115,000</u>	<u>45,410</u>	<u>39,293</u>	<u>-</u>	<u>-</u>	199,703
Total revenue and support	<u>2,980,034</u>	<u>3,606,680</u>	<u>2,077,648</u>	<u>(871,832)</u>	<u>(3,079,486)</u>	4,713,044
Expenses						
Salaries and wages	154,353	2,388,293	1,550,220	-	-	4,092,866
Employee benefits	84,516	376,034	197,108	-	-	657,658
Supplies and other expenses	195,686	493,618	306,254	213,182	(6,630)	1,202,110
Technology	230,086	-	-	-	-	230,086
Fees to affiliates	-	202,485	134,990	-	(337,475)	-
Transfers to affiliates	-	-	-	2,735,381	(2,735,381)	-
Occupancy	128,016	-	-	-	-	128,016
Depreciation and amortization	142,800	47,032	1,048	-	-	190,880
Bad debt expense	-	-	1,842	-	-	1,842
Interest	<u>84,377</u>	<u>16,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	100,873
Total expenses	<u>1,019,834</u>	<u>3,523,958</u>	<u>2,191,462</u>	<u>2,948,563</u>	<u>(3,079,486)</u>	6,604,331
Change in net assets	<u>1,960,200</u>	<u>82,722</u>	<u>(113,814)</u>	<u>(3,820,395)</u>	<u>-</u>	(1,891,287)
Net Assets, beginning of year, as previously stated	(964,820)	(653,362)	253,706	3,951,024	-	2,586,548
Prior period adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
Net Assets, beginning of year, as restated	<u>(964,820)</u>	<u>(653,362)</u>	<u>253,706</u>	<u>3,951,024</u>	<u>-</u>	2,586,548
Net Assets, end of year	<u>\$ 995,380</u>	<u>\$ (570,640)</u>	<u>\$ 139,892</u>	<u>\$ 130,629</u>	<u>\$ -</u>	\$ 695,261

Temporarily Restricted					Permanently Restricted			
IVNA	IVNA Home Health Care	IVNA Health Services	IVNA Foundation	Total	IVNA	IVNA Foundation	Total	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,433,383
-	-	1,793	-	1,793	-	-	-	729,123
-	-	-	-	-	-	-	-	391,727
-	-	-	-	-	-	-	-	5,211
-	-	-	-	-	-	-	-	(1,138,637)
-	-	-	-	-	(1,447,869)	(17,712)	(1,465,581)	(1,465,581)
-	-	-	-	-	-	-	-	94,327
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	1,793	-	1,793	(1,447,869)	(17,712)	(1,465,581)	3,049,553
<u>(115,000)</u>	<u>(45,410)</u>	<u>(39,293)</u>	<u>-</u>	<u>(199,703)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(115,000)</u>	<u>(45,410)</u>	<u>(37,500)</u>	<u>-</u>	<u>(197,910)</u>	<u>(1,447,869)</u>	<u>(17,712)</u>	<u>(1,465,581)</u>	<u>3,049,553</u>
-	-	-	-	-	-	-	-	4,092,866
-	-	-	-	-	-	-	-	657,658
-	-	-	-	-	-	-	-	1,202,110
-	-	-	-	-	-	-	-	230,086
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	128,016
-	-	-	-	-	-	-	-	190,880
-	-	-	-	-	-	-	-	1,842
-	-	-	-	-	-	-	-	100,873
-	-	-	-	-	-	-	-	6,604,331
<u>(115,000)</u>	<u>(45,410)</u>	<u>(37,500)</u>	<u>-</u>	<u>(197,910)</u>	<u>(1,447,869)</u>	<u>(17,712)</u>	<u>(1,465,581)</u>	<u>(3,554,778)</u>
115,000	95,771	-	-	210,771	4,952,700	53,831	5,006,531	7,803,850
-	(37,500)	37,500	-	-	-	-	-	-
<u>115,000</u>	<u>58,271</u>	<u>37,500</u>	<u>-</u>	<u>210,771</u>	<u>4,952,700</u>	<u>53,831</u>	<u>5,006,531</u>	<u>7,803,850</u>
\$ -	\$ 12,861	\$ -	\$ -	\$ 12,861	\$3,504,831	\$ 36,119	\$ 3,540,950	\$ 4,249,072

**INSTRUCTIVE VISITING NURSE ASSOCIATION
AND SUBSIDIARIES**

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the year ended December 31, 2007

	Unrestricted					
	IVNA	IVNA Home Health Care	IVNA Health Services	IVNA Foundation	Eliminating Entries	Total
Revenue and Support						
Net patient revenue	\$ -	\$3,042,975	\$2,642,562	\$ -	\$ (22,829)	\$5,662,708
Contributions and grants	116,101	514,424	590	174,193	-	805,308
Other revenue	1,941	42,056	107,577	-	(23,362)	128,212
Interest income	844	2,711	1,374	72,181	-	77,110
Realized and unrealized gains and losses on investments	-	-	-	195,553	-	195,553
Change in market value of beneficial interests in perpetual trusts	-	-	-	-	-	-
Dividend income	-	-	-	275,006	-	275,006
Fees from affiliates	1,470,929	-	-	-	(1,470,929)	-
Transfers from affiliates	242,733	1,578,750	117,250	-	(1,938,733)	-
	<u>1,832,548</u>	<u>5,180,916</u>	<u>2,869,353</u>	<u>716,933</u>	<u>(3,455,853)</u>	<u>7,143,897</u>
Net assets released from restrictions:	-	169,209	20,829	-	-	190,038
Total revenue and support	<u>1,832,548</u>	<u>5,350,125</u>	<u>2,890,182</u>	<u>716,933</u>	<u>(3,455,853)</u>	<u>7,333,935</u>
Expenses						
Salaries and wages	623,998	2,620,399	1,775,189	-	-	5,019,586
Employee benefits	95,405	527,952	253,968	-	-	877,325
Supplies and other expenses	317,247	526,696	473,037	127,166	(46,191)	1,397,955
Technology	180,233	-	-	-	-	180,233
Fees to affiliates	-	1,150,598	320,331	-	(1,470,929)	-
Transfers to affiliates	-	-	-	1,938,733	(1,938,733)	-
Occupancy	143,690	-	-	-	-	143,690
Depreciation and amortization	151,408	107,817	3,030	-	-	262,255
Bad debt expense	-	22,293	124,893	-	-	147,186
Interest	114,727	27,478	-	-	-	142,205
Total expenses	<u>1,626,708</u>	<u>4,983,233</u>	<u>2,950,448</u>	<u>2,065,899</u>	<u>(3,455,853)</u>	<u>8,170,435</u>
Change in net assets	<u>205,840</u>	<u>366,892</u>	<u>(60,266)</u>	<u>(1,348,966)</u>	<u>-</u>	<u>(836,500)</u>
Net Assets, beginning of year, as previously stated	(1,170,660)	(950,704)	313,972	4,875,257	-	3,067,865
Prior period adjustments	-	(69,550)	-	424,733	-	355,183
Net Assets, beginning of year, as restated	<u>(1,170,660)</u>	<u>(1,020,254)</u>	<u>313,972</u>	<u>5,299,990</u>	<u>-</u>	<u>3,423,048</u>
Net Assets, end of year	<u>\$ (964,820)</u>	<u>\$ (653,362)</u>	<u>\$ 253,706</u>	<u>\$3,951,024</u>	<u>\$ -</u>	<u>\$2,586,548</u>

Temporarily Restricted					Permanently Restricted			
IVNA	IVNA Home Health Care	IVNA Health Services	IVNA Foundation	Total	IVNA	IVNA Foundation	Total	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,662,708
15,000	168,307	3,680	-	186,987	-	-	-	992,295
-	-	-	-	-	-	-	-	128,212
-	-	-	-	-	-	-	-	77,110
-	-	-	-	-	-	-	-	195,553
-	-	-	-	-	107,940	708	108,648	108,648
-	-	-	-	-	-	-	-	275,006
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
15,000	168,307	3,680	-	186,987	107,940	708	108,648	7,439,532
-	(169,209)	(20,829)	-	(190,038)	-	-	-	-
15,000	(902)	(17,149)	-	(3,051)	107,940	708	108,648	7,439,532
-	-	-	-	-	-	-	-	5,019,586
-	-	-	-	-	-	-	-	877,325
-	-	-	-	-	-	-	-	1,397,955
-	-	-	-	-	-	-	-	180,233
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	143,690
-	-	-	-	-	-	-	-	262,255
-	-	-	-	-	-	-	-	147,186
-	-	-	-	-	-	-	-	142,205
-	-	-	-	-	-	-	-	8,170,435
15,000	(902)	(17,149)	-	(3,051)	107,940	708	108,648	(730,903)
-	27,123	17,149	424,733	469,005	4,844,760	53,123	4,897,883	8,434,753
100,000	69,550	-	(424,733)	(255,183)	-	-	-	100,000
100,000	96,673	17,149	-	213,822	4,844,760	53,123	4,897,883	8,534,753
\$ 115,000	\$ 95,771	\$ -	\$ -	\$ 210,771	\$ 4,952,700	\$ 53,831	\$ 5,006,531	\$ 7,803,850