Consolidated Financial Statements and Report of Independent Certified Public Accountants

The Visiting Nurse Association of Texas

June 30, 2014

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
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Report on the financial statements

We have audited the accompanying consolidated financial statements of The Visiting Nurse Association of Texas and its affiliated entity (collectively, the "Corporation"), which comprise the consolidated balance sheet as of June 30, 2014 and the related consolidated statements of operations and 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 consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated 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 Corporation'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Visiting Nurse Association of Texas and its affiliated entity as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet, consolidating schedule of operations and changes in net assets, and schedule of functional expenses are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on 2013 summarized comparative information

We have previously audited the Corporation's 2013 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 8, 2013. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 19, 2014, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Grant Thornton LLP

Dallas, Texas
November 19, 2014

The Visiting Nurse Association of Texas

CONSOLIDATED BALANCE SHEET

Year ended June 30, 2014
(with comparative totals for 2013)

ASSETS	2014	2013
Cash and cash equivalents	$ 4,712,140	$ 3,470,283
Investments, at fair value	9,778,492	8,547,616
Accounts receivable, net of allowance for doubtful accounts of $425,907 and $596,434, respectively	2,868,720	2,156,181
Prepaid expenses and other assets	203,016	210,011
Property and equipment, net	7,079,087	7,376,741
Total assets	$24,641,455	$21,760,832
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 1,910,242	$ 2,425,937
Accrued payroll and vacation costs	570,071	517,457
Total liabilities	2,480,313	2,943,394
Commitments and contingencies		
Net assets		
Unrestricted	17,835,678	13,733,308
Temporarily restricted	856,856	1,615,522
Permanently restricted	3,468,608	3,468,608
Total net assets	22,161,142	18,817,438
Total liabilities and net assets	$24,641,455	$21,760,832

The accompanying notes are an integral part of this consolidated statement.

The Visiting Nurse Association of Texas

CONSOLIDATED STATEMENT OF OPERATIONS
AND CHANGES IN NET ASSETS

Year ended June 30, 2014
(with comparative totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
REVENUE, GAINS AND OTHER SUPPORT					
Net patient service revenue	$17,779,998	$ -	$ -	$17,779,998	$19,829,712
Contributions	3,135,827	3,916,035	-	7,051,862	4,249,983
Investment income	1,144,883	-	-	1,144,883	225,849
Miscellaneous income	3,849	-	-	3,849	15,382
Net assets released from restrictions for capital	327,964	-	-	327,964	99,896
Net assets released from restrictions for operations	4,346,737	(4,346,737)	-	-	-
Total revenue, gains and other support	26,739,258	(430,702)	-	26,308,556	24,420,822
EXPENSES AND OTHER DEDUCTIONS					
Personnel costs	12,015,495	-	-	12,015,495	15,528,630
Supplies	4,376,668	-	-	4,376,668	4,289,695
Other operating expenses	5,776,601	-	-	5,776,601	5,708,328
Provision for bad debts	164,827	-	-	164,827	407,815
Depreciation and amortization	596,120	-	-	596,120	700,907
Total expenses and other deductions	22,929,711	-	-	22,929,711	26,635,375
Excess (deficiency) of revenue over (under) expenses	3,809,547	(430,702)	-	3,378,845	(2,214,553)
NET UNREALIZED GAINS ON INVESTMENTS	292,823	-	-	292,823	1,055,215
NET ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL	-	(327,964)	-	(327,964)	(99,896)
Change in net assets	4,102,370	(758,666)	-	3,343,704	(1,259,234)
Net assets at beginning of year	13,733,308	1,615,522	3,468,608	18,817,438	20,076,672
Net assets at end of year	$17,835,678	$ 856,856	$3,468,608	$22,161,142	$18,817,438

The accompanying notes are an integral part of this consolidated statement.

The Visiting Nurse Association of Texas

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2014
(with comparative totals for 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,343,704	$(1,259,234)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	596,120	700,907
Net unrealized gains on investments	(292,823)	(1,055,215)
Investment income reinvested, net	(65,841)	(133,403)
Realized gain on sale of investments	(1,038,558)	-
Provision for bad debts	164,827	407,815
Loss on disposal of fixed assets	6,931	995
Changes in operating assets and liabilities		
Accounts receivable	(877,366)	725,595
Prepaid expenses and other assets	6,995	86,171
Accounts payable and accrued liabilities	(515,695)	205,485
Accrued payroll and vacation costs	52,614	(312,913)
Net cash provided by (used in) operating activities	1,380,908	(633,797)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(305,397)	(449,459)
Purchases of investments	(8,968,526)	(152,361)
Proceeds from sales of investments	9,134,872	2,400,000
Net cash (used in) provided by investing activities	(139,051)	1,798,180
Net increase in cash and cash equivalents	1,241,857	1,164,383
Cash and cash equivalents at beginning of year	3,470,283	2,305,900
Cash and cash equivalents at end of year	$ 4,712,140	$ 3,470,283

The accompanying notes are an integral part of this consolidated statement.

The Visiting Nurse Association of Texas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

NOTE A - NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION

Nature of Operations

The Visiting Nurse Association of Texas began operations in 1934. The Visiting Nurse Association and its affiliated entity (collectively, the "Corporation") is engaged in community health programs for residents of Dallas and nine other Texas counties.

In January 2013, the Corporation announced its decision to close three of its programs before the end of fiscal year 2013. The Home Care program stopped accepting new patients in January and had discharged all Home Care patients through normal plans of care by the end of February 2013. The Community Based Alternatives and Primary Home Care Programs also stopped accepting new patients in January and had discharged or transferred all patients in those programs to other agencies by the end of April 2013. At June 30, 2013, the Corporation was actively engaged in providing services in its Hospice, Meals, and Private Care Programs.

Principles of Consolidation

The consolidated financial statements include accounts of The Visiting Nurse Association of Texas ("VNA") and The Visiting Nurse Association of Texas Foundation (the "Foundation"). The Foundation is a Texas membership non-profit corporation. VNA is the sole corporate member of the Foundation and thus exercises legal control over the Foundation. All significant intercompany accounts and transactions have been eliminated.

The Foundation was organized in 1978 as an independently incorporated supporting organization for VNA operating exclusively for tax-exempt charitable and educational purposes within the meaning of Internal Revenue Code ("IRC") Section 501(c)(3). Under the Foundation's Articles of Incorporation and Bylaws, VNA's Board of Directors has authority to elect the Foundation's directors. Notwithstanding this relationship, the Foundation is not required by its Articles of Incorporation or Bylaws to make annual grants or distributions to VNA. The Foundation supports and benefits VNA by, among other things, soliciting, receiving, holding, investing and managing certain gifts, grants, contributions and bequests which are intended to benefit the long term goals, purposes and objectives of VNA.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- Unrestricted net assets - Net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Corporation and/or the passage of time.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be maintained permanently by the Corporation. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at the risk free rate. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

The Corporation interprets the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted by the State of Texas as allowing the Corporation, absent donor stipulations to the contrary as stated in the gift instrument, to appropriate as much of a donor-restricted endowment fund as the Board determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established.

Realized and unrealized gains (losses) and income on investments of endowment funds are reported as follows:

- as increases (decreases) in permanently restricted net assets if the terms of the gifts require that they be added to the principal of a permanent endowment fund;
- as increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on their use or until appropriate for expenditure;
- as increases (decreases) in unrestricted net assets if the restrictions on the income are met within the same year, and in all other cases.

Excess (Deficiency) of Revenue Over (Under) Expenses

The statement of operations and changes in net assets includes excess (deficiency) of revenue over (under) expenses. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenue over (under) expenses, consistent with industry practice, include unrealized gains and losses on investments, capital campaign contributions and contributions of long-lived assets (including assets acquired using contributions restricted by the donor for the purposes of acquiring such assets).

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Patient Service Revenue

Net patient service revenue is accounted for in the period in which the services are rendered and is reported at the estimated net realizable amounts from patients, third-party payors and others, including estimated retroactive adjustments under reimbursements 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 settlement is determined.

Net patient service revenue percentages by source before the provision for bad debt for the years ended June 30, 2014 and 2013 are as follows:

	June 30,	
	2014	2013
Medicare	56%	47%
Medicaid	9%	4%
Private Pay and Insurance	8%	10%
State and County	27%	39%
Total	100%	100%

Cash Equivalents

Cash equivalents are comprised of demand deposits and short-term investments with original maturities of three months or less.

Investments

Investments are carried at fair value, which is determined based on quoted market prices. Gains and losses on sales transactions are recorded when realized based on the original cost (amortized in the case of bonds) of the investments sold based on the specific identification method. The net realized and unrealized gains or losses on investments are reflected in the statements of operations and changes in net assets.

Accounts Receivable

The Corporation's accounts receivable relate to patient services. Credit is extended to patients and third-party payors and collateral is not required. Accounts receivable are due at the time services are rendered and are stated at amounts due from patients and third party payors net of contractual allowances and an allowance for doubtful accounts. Accounts are generally considered past due after 60 days. The Corporation determines its allowance for doubtful accounts based on past due accounts. Significantly past due invoices are charged to the allowance for doubtful accounts and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment

The Corporation follows a policy of capitalizing property and equipment expenditures in excess of $4,999. Property and equipment, except that which is received as donations, are recorded at cost. Donated assets are recorded at fair market value as of the date of donation. Assets are depreciated using the straight-line method over periods of three to forty years. Leasehold improvements are amortized over the shorter of their useful life or related lease term.

Income Taxes

The Corporation is given an exemption from federal income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code according to Internal Revenue Service determination letters dated March 31, 1935 for VNA and November 28, 1980 for the Foundation. The Corporation is potentially subject to tax on unrelated business income under Section 511(a) of the Code; however, the Corporation had no material unrelated business income for the years ended June 30, 2014 or 2013.

The Corporation has concluded that it does not have any unrecognized tax benefits resulting from current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding uncertain tax provisions. The Corporation does not have any outstanding interest or penalties, and none have been recorded in the consolidated statement of operations and changes in net assets for the years ended June 30, 2014 and 2013.

Advertising Expenses

The Corporation expenses advertising costs as incurred. Advertising expenses were approximately $205,000 and $253,000 for the years ending June 30, 2014 and 2013, respectively, and are included in other operating expenses in the accompanying consolidated statement of operations and changes in net assets.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Corporation have been summarized on a functional basis in Note M. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Indigent Care

The Corporation, at its discretion, provides care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient. Indigent care is typically provided only to the extent the Corporation has temporarily restricted net assets available for such purposes.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Charity Care and Other Community Benefits

VNA provides services to clients who lack financial resources and are deemed to be medically or financially indigent. The direct and indirect costs of providing charity services were approximately $2,419,000 and $2,101,000 in 2014 and 2013, respectively. The estimated cost of charity care services was determined using the average cost of providing an instance of that service to all clients for the period, multiplied by the number of instances of charity care. Total costs associated with providing care to charity clients include only the related costs for those clients who are financially unable to pay and qualify under VNA's policies and do not otherwise qualify for reimbursement from a governmental program. In addition, VNA provides services to other indigent clients under the Medicaid program. The Medicaid program pays providers amounts that are often less than the cost of the services provided to the recipients. Funds received to subsidize charitable services for the years ended June 30, 2014 and 2013, were approximately $3,097,000 and $2,210,000, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Statements

The consolidated financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Corporation's financial statements as of and for the year ended June 30, 2013, from which the summarized information was derived.

Subsequent Events

Subsequent events that would impact the consolidated financial statements or related disclosures have been evaluated through November 19, 2014, which is the date the consolidated financial statements were available to be issued. There were no unrecognized subsequent events to be recorded or disclosed in these consolidated financial statements.

NOTE C - INVESTMENTS

Investments at market value consist of the following:

	June 30, 2014	June 30, 2013
Marketable securities	$9,438,278	$8,041,056
Deferred compensation account investments	340,214	506,560
	$9,778,492	$8,547,616

The following summarizes investment return:

	Years ended June 30, 2014	Years ended June 30, 2013
Dividend and interest income	$ 103,550	$ 225,849
Net realized gain on investments	1,041,333	-
Investment income	$1,144,883	$ 225,849
Net unrealized gains on investments	$ 292,823	$1,055,215

Investment fees were approximately $36,000 and $30,000 for the years ended June 30, 2014 and 2013, respectively, and are included in other operating expenses in the accompanying consolidated statement of operations and changes in net assets.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation follows guidance establishing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs that cannot be validated by readily determinable market data and generally involve considerable judgment by management (Level 3). Level 2 measurements are inputs that are observable for assets or liabilities, either directly or indirectly, other than quoted prices included within Level 1.

The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The schedule below classifies the Corporation's financial instruments carried at fair value based upon the three-tier hierarchy:

		Fair Value Measurements Using		
As of June 30, 2014	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities	$9,438,278	$9,438,278	$ -	$ -
Deferred compensation account investments	340,214	-	340,214	-
	$9,778,492	$9,438,278	$ 340,214	$ -

		Fair Value Measurements Using		
As of June 30, 2013	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable alternative investments	$8,041,056	$ -	$8,041,056	$ -
Deferred compensation account investments	506,560	-	506,560	-
	$8,547,616	$ -	$8,547,616	$ -

Marketable securities are comprised of equity securities, fixed income securities, and multi-strategy equity funds, and money markets which are held with the same external investment manager.

Deferred compensation account investments are comprised of mutual funds, including equity funds, bond funds, and multi-strategy funds. All funds are held with the same external investment manager. These investments may be redeemed at net asset value at any time. There were no unfunded commitments related to these investments at June 30, 2014. See also Note G.

Marketable alternative investments at June 30, 2013 are comprised of multi-strategy bond funds, which invest in dollar-denominated investment grade bonds and other fixed income securities, and multi-strategy equity funds, which invest in a portfolio of common stocks, and securities convertible into common stocks. Both funds are held with the same external investment manager. The Corporation may redeem these investments once a month, with five days' notice. There were no unfunded commitments related to these investments at June 30, 2014.

NOTE E - ACCOUNTS RECEIVABLE

Changes in the Corporation's allowance for doubtful accounts related to accounts receivable for the year ended June 30 are as follows:

	2014	2013
Beginning balance	$ 596,434	$ 709,393
Provision for bad debts	164,827	407,815
Accounts written-off	(335,354)	(520,774)
Ending balance	$ 425,907	$ 596,434

Over $500,000 was written off in 2013 representing accounts receivable of three managed care providers in the Corporation's discontinued Primary Home Care and Community Based Alternatives programs.

NOTE F - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	June 30,	
	2014	2013
Buildings and improvements	$ 6,882,651	$ 6,468,023
Equipment, furniture and fixtures	6,328,875	6,462,261
	13,211,526	12,930,284
Less accumulated depreciation and amortization	(6,772,939)	(6,194,043)
	6,438,587	6,736,241
Land	640,500	640,500
Ending balance	$ 7,079,087	$ 7,376,741

NOTE G - DEFERRED COMPENSATION PLAN

The Corporation entered into deferred compensation agreements with executive management. The agreements provide for thirty-five percent of annual compensation to be used either as taxable compensation to pay for insurance costs or income tax payments or tax-deferred compensation invested at the discretion of the employee.

The employee can withdraw the fair market value of the investment within ninety days of termination or may elect to defer commencement of payment of the benefit to a date no later than ten years after the employee's severance from employment.

Deferred compensation balances of $340,214 and $506,560 were included in investments and accounts payable and accrued liabilities in the accompanying consolidated balance sheet as of June 30, 2014 and 2013, respectively.

NOTE H - ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

The Corporation has agreements with third-party payors that provide for reimbursement to the Corporation at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Corporation's established rates for services and the amounts reimbursed by third-party payors.

Medicare is the Corporation's most significant third-party payor, which accounted for 56% and 47% of net patient service revenue, respectively, for the years ended June 30, 2014 and 2013.

Reimbursement from Medicare in the Corporation's Home Care Program is made under the Prospective Payment System ("PPS"). Under PPS, a fixed payment is made for each sixty-day episode of service, depending on the patient's clinical diagnosis, functional severity, and service utilization.

Hospice patient services are reimbursed based on predetermined per diem rates, which vary among the different types of hospice payors. Medicare and Medicaid establish the benchmark per diem rates.

NOTE I - STATE PROGRAM REIMBURSEMENT

The Corporation provides services to patients under several state program contracts administered by the Texas Department of Aging and Disability Services. These contracts (Meals on Wheels, Primary Home Care and others) provide for reimbursement of services based on a negotiated fee for service. Local community-raised funds must be used to fund the portion of costs that is not reimbursed through state programs for these services. All state contracts are subject to annual renewal based on a competitive bidding system. State program reimbursement represented 27% and 39% of net patient service revenue for each of the years ended June 30, 2014 and 2013, respectively.

NOTE J - RESTRICTIONS ON NET ASSETS

Permanently restricted net assets, the income from which is restricted for the following purposes, are as follows:

	June 30,	
	2014	2013
Program services	$3,023,097	$3,023,097
Indigent care	144,751	144,751
Other purposes	300,760	300,760
	$3,468,608	$3,468,608

Temporarily restricted net assets are restricted for the following purposes:

	June 30,	
	2014	2013
Capital campaign	$ 45,231	$ 373,195
Property and equipment	68,685	458,363
Indigent care	655,633	768,498
Other purposes	87,307	15,466
	$856,856	$1,615,522

NOTE K - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors, were as follows:

	Years ended June 30,	
	2014	2013
Indigent care (at billable rates)	$3,209,447	$2,629,321
Other operating purposes	690,131	170,710
Capital campaign	327,964	99,896
Property and equipment	447,159	481
	$4,674,701	$2,900,408

NOTE L - DONATED SERVICES

The Corporation receives donated services from volunteers who provide assistance primarily with the Meals on Wheels and Hospice programs and are not reflected in the accompanying consolidated statement of operations and changes in net assets since these services do not create or enhance financial assets or require specialized skills which would typically need to be purchased if not contributed.

NOTE M - FUNCTIONAL ALLOCATION OF EXPENSES

The Corporation incurred expenses relating to the following functional expense categories:

	Years ended June 30,	
	2014	2013
Program	$17,655,154	$21,790,152
Fundraising	1,508,143	1,076,752
Management and general	3,766,414	3,768,471
Total expenses	$22,929,711	$26,635,375

NOTE N - LEASES

Leases as Lessee

The Corporation leases equipment, various branch offices, and the administrative office under operating leases expiring through December 31, 2020. Lease expense under these leases was approximately $572,000 and $895,000 during the years ended June 30, 2014 and 2013, respectively, and is included in other operating expenses in the accompanying consolidated statement of operations and changes in net assets.

Future minimum rentals on noncancelable leases with initial lease terms greater than one year are as follows at June 30, 2014:

Year ending June 30	
2015	$ 438,333
2016	436,016
2017	413,554
2018	406,404
Thereafter	918,166
	$2,612,473

NOTE O - EMPLOYEE BENEFIT PLANS

A 403(b) defined contribution plan covers all employees who are at least 21 years of age and have completed one year and 1,000 hours of service. The Corporation matches 50% of the participant's contribution up to a maximum of 6% of the annual compensation of the participant. The Corporation also makes a contribution to the 403(b) plan of 3% of compensation, regardless of employee participation. The Corporation's contributions to both plans for the years ended June 30, 2014 and 2013 were approximately $337,000 and $392,000, respectively.

NOTE P - CONCENTRATION OF CREDIT RISK

Receivables from government agencies represent approximately 73% and 65% of gross accounts receivable from program services at June 30, 2014 and 2013, respectively, and are the only concentrated group of credit risk for receivables. Management does not believe that there are any significant credit risks associated with these governmental agencies. Non-governmental receivables consist of receivables from various payors, including insurance companies and individuals involved in diverse activities, subject to differing economic conditions, and do not represent concentrated credit risks to the Corporation. Furthermore, management continually monitors and adjusts its allowance for doubtful accounts associated with these receivables to reflect them at their net realizable values.

Other financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and investments in marketable securities. The Corporation places its cash, cash equivalents and investments with high credit quality financial institutions, which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts, and management monitors the financial institutions' ongoing business and does not believe undue investment risk exists.

NOTE Q - COMMITMENTS AND CONTINGENCIES

The Corporation has been named in various lawsuits seeking both actual and punitive damages. Although the ultimate outcome of these matters is uncertain, management, based on consultation with internal and external legal counsel, is of the opinion that their resolution will not have a material adverse effect on the consolidated financial statements.

NOTE R - RELATED PARTY TRANSACTIONS

Related parties include members of the Board of Directors. Transactions with related parties consist of contributions from board members. Board members, either individually or through foundations, have contributed a total of over $1,500,000 to the Corporation over the last four fiscal years, including approximately $462,000 and $400,000, respectively, in the years ended June 30, 2014 and 2013.

The Visiting Nurse Association of Texas

CONSOLIDATING BALANCE SHEET

June 30, 2014

ASSETS	VNA	VNA of Texas Foundation	Consolidated Total
Cash and cash equivalents	$ 4,712,140	$ -	$ 4,712,140
Investments, at fair value	340,214	9,438,278	9,778,492
Accounts receivable, net	2,868,720	-	2,868,720
Intercompany balances	128,080	(128,080)	-
Prepaid expenses and other assets	172,270	30,746	203,016
Property and equipment, net	7,079,087	-	7,079,087
Total assets	$15,300,511	$9,340,944	$24,641,455
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued liabilities	$ 1,880,293	$ 29,949	$ 1,910,242
Accrued payroll and vacation costs	548,048	22,023	570,071
Total liabilities	2,428,341	51,972	2,480,313
Net assets			
Unrestricted	12,628,290	5,207,388	17,835,678
Temporarily restricted	243,880	612,976	856,856
Permanently restricted	-	3,468,608	3,468,608
Total net assets	12,872,170	9,288,972	22,161,142
Total liabilities and net assets	$15,300,511	$9,340,944	$24,641,455

The Visiting Nurse Association of Texas

CONSOLIDATING SCHEDULE OF OPERATIONS
AND CHANGES IN NET ASSETS

Year ended June 30, 2014

	VNA	VNA of Texas Foundation	Consolidated Total
REVENUE, GAINS AND OTHER SUPPORT			
Net patient service revenue	$17,779,998	$ -	$17,779,998
Contributions	4,784,198	2,267,664	7,051,862
Investment income	1,906	1,142,977	1,144,883
Miscellaneous income	3,849	-	3,849
Net assets released from restriction for capital	327,964	-	327,964
Total revenue, gains and other support	$22,897,915	$3,410,641	$26,308,556
EXPENSES AND OTHER DEDUCTIONS			
Personnel costs	11,301,599	713,896	12,015,495
Supplies	4,373,483	3,185	4,376,668
Other operating expenses	4,985,915	790,686	5,776,601
Provision for bad debts	164,827	-	164,827
Depreciation and amortization	595,745	375	596,120
Total expenses and other deductions	21,421,569	1,508,142	22,929,711
Excess of revenue over expenses	1,476,346	1,902,499	3,378,845
NET UNREALIZED GAINS ON INVESTMENTS	-	292,823	292,823
NET ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL	(327,964)	-	(327,964)
Change in net assets	1,148,382	2,195,322	3,343,704
Net assets at beginning of year	11,723,788	7,093,650	18,817,438
Net assets at end of year	$12,872,170	$9,288,972	$22,161,142

The Visiting Nurse Association of Texas

SCHEDULE OF FUNCTIONAL EXPENSES

Year ended June 30, 2014

	Hospice	Private Duty	Meals on Wheels	Program Total	Fundraising Total	Management & Gen Total	FY 2014 Total
Expenses							
Salaries	$ 4,625,773	$1,074,138	$1,641,965	$ 7,341,876	$ 609,837	$1,690,128	$ 9,641,841
Retirement plans	98,156	11,532	58,007	167,695	40,204	168,564	376,463
Payroll taxes	294,633	76,745	172,423	543,801	26,704	127,087	697,592
Worker's injury	34,403	7,470	13,926	55,799	934	4,191	60,924
Employee insurance benefits	738,821	69,725	186,550	995,096	36,217	207,362	1,238,675
Total personnel costs	5,791,786	1,239,610	2,072,871	9,104,267	713,896	2,197,332	12,015,495
Insurance	39,332	3,301	5,537	48,170	20,910	34,428	103,508
Legal & audit	-	-	-	-	-	132,365	132,365
Professional fees	552,693	3,587	33,527	589,807	233,411	88,397	911,615
Patient DME/Inpt/Resp/R&B	1,625,778	-	-	1,625,778	-	-	1,625,778
Patient supplies & drug	599,983	1,505	25,079	626,567	-	894	627,461
Office supplies	16,090	156	29,484	45,730	3,185	21,161	70,076
Telecommunications	171,780	6,459	43,177	221,416	8,889	69,986	300,291
Postage & delivery	14,871	513	3,814	19,198	218,021	20,036	257,255
Occupancy	493,501	22,886	28,822	545,209	45,352	296,676	887,237
Printing & copying	58,634	6,549	8,012	73,195	27,469	30,478	131,142
Transportation	218,455	4,057	7,976	230,488	1,728	37,614	269,830
Conferences & meetings	61,083	1,839	9,856	72,778	7,053	12,845	92,676
Food	-	-	3,306,932	3,306,932	-	-	3,306,932
Recruitment & advertising	57,430	9,539	19,508	86,477	-	118,902	205,379
Computer services	114,020	503	34,117	148,640	-	204,896	353,536
Membership dues	23,378	725	6,790	30,893	720	5,405	37,018
Equipment	24,576	338	130,765	155,679	29,852	48,288	233,819
Other expenses	61,060	17,504	39,213	117,777	197,282	292,292	607,351
Total before non-cash items	9,924,450	1,319,071	5,805,480	17,049,001	1,507,768	3,611,995	22,168,764
Equipment depreciation	65,735	309	344,684	410,728	-	110,400	521,128
Leasehold improvements amortization	1,072	2	174	1,248	-	1,092	2,340
Amortization	22,419	88	6,843	29,350	375	42,927	72,652
Provision for bad debts	172,603	8,065	(15,841)	164,827	-	-	164,827
Total non-cash items	261,829	8,464	335,860	606,153	375	154,419	760,947
Total expenses	$10,186,279	$1,327,535	$6,141,340	$17,655,154	$1,508,143	$3,766,414	$22,929,711