



Consolidated Financial Statements  
December 31, 2009 and 2008

# Minnesota Visiting Nurse Agency and Affiliate

## MINNESOTA VISITING NURSE AGENCY AND AFFILIATE

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CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

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The Board of Directors  
**Minnesota Visiting Nurse Agency and Affiliate**  
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of the **Minnesota Visiting Nurse Agency and Affiliate** as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the **Minnesota Visiting Nurse Agency and Affiliate's** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Minnesota Visiting Nurse Agency and Affiliate's** internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of **Minnesota Visiting Nurse Agency and Affiliate** as of December 31, 2009 and 2008, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Minneapolis, Minnesota  
June 16, 2010

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,079,229	\$ 1,103,365
Receivables		
Patient, net of estimated uncollectibles of approximately \$710,000 in 2009 and \$500,000 in 2008	3,832,743	5,110,817
United Way and other pledges receivable	739,639	843,223
Prepaid expenses and supplies	340,269	319,856
	<u>6,991,880</u>	<u>7,377,261</u>
<b>ASSETS LIMITED AS TO USE</b>		
Designated by Board	3,764,775	2,436,552
Restricted for scholarships	6,316	6,745
Endowment investments	155,490	155,490
	<u>3,926,581</u>	<u>2,598,787</u>
PROPERTY AND EQUIPMENT, net	<u>654,744</u>	<u>566,764</u>
<b>OTHER ASSETS</b>		
Deposits	9,815	9,815
Goodwill, net of accumulated amortization of \$651,708 in 2009 and \$563,850 in 2008	227,147	315,005
	<u>236,962</u>	<u>324,820</u>
Total other assets	<u>236,962</u>	<u>324,820</u>
Total assets	<u>\$ 11,810,167</u>	<u>\$ 10,867,632</u>

See Notes to Consolidated Financial Statements

	<u>2009</u>	<u>2008</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 27,217	\$ 25,508
Accounts payable		
Trade	697,453	1,573,787
Estimated third-party payor settlements	416,840	751,155
Deferred revenue	36,986	62,308
Accrued salaries and benefits	<u>1,932,291</u>	<u>1,424,236</u>
Total current liabilities	<b>3,110,787</b>	3,836,994
 LONG-TERM DEBT, less current maturities	 <u>11,871</u>	 <u>39,089</u>
Total liabilities	<u><b>3,122,658</b></u>	<u>3,876,083</u>
 <b>NET ASSETS</b>		
Unrestricted		
Operating	4,036,568	3,622,343
Board designated	3,764,775	2,436,552
Temporarily restricted	730,676	777,164
Permanently restricted	<u>155,490</u>	<u>155,490</u>
Total net assets	<u><b>8,687,509</b></u>	<u>6,991,549</u>
Total liabilities and net assets	<u><b>\$ 11,810,167</b></u>	<u><b>\$ 10,867,632</b></u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net patient service revenue	\$ 22,426,787	\$ 22,154,199
Other revenue	(13,921)	52,563
Unrestricted contributions	531,743	418,001
Net assets released from restrictions for operations	<u>770,847</u>	<u>773,725</u>
Total revenues, gains, and other support	<u>23,715,456</u>	<u>23,398,488</u>
EXPENSES		
Salaries and wages	12,622,926	11,992,467
Employee benefits	3,188,976	3,055,967
Purchased services	1,315,640	2,134,005
Supplies and other	4,808,593	5,303,499
Depreciation	227,536	217,909
Amortization	87,858	87,858
Interest	4,496	21,564
Provision for bad debts	<u>171,636</u>	<u>310,507</u>
Total expenses	<u>22,427,661</u>	<u>23,123,776</u>
OPERATING INCOME	<u>1,287,795</u>	<u>274,712</u>
OTHER LOSSES		
Investment income (loss), net	(125,925)	(137,471)
Reclassification of cumulative unrealized gains and losses on investments (Note 1)	<u>(192,511)</u>	<u>-</u>
Total other losses	<u>(318,436)</u>	<u>(137,471)</u>
REVENUES IN EXCESS OF EXPENSES	969,359	137,241
CHANGE IN UNREALIZED GAINS AND LOSSES ON INVESTMENTS	580,578	(777,874)
RECLASSIFICATION OF CUMULATIVE UNREALIZED GAINS AND LOSSES ON INVESTMENTS (NOTE 1)	<u>192,511</u>	<u>-</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 1,742,448</u>	<u>\$ (640,633)</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
UNRESTRICTED NET ASSETS		
Revenues in excess of expenses	\$ 969,359	\$ 137,241
Change in unrealized gains and losses on investments	580,578	(777,874)
Reclassification of cumulative unrealized gains and losses on investments (Note 1)	192,511	-
	<u>1,742,448</u>	<u>(640,633)</u>
Increase (decrease) in unrestricted net assets		
TEMPORARILY RESTRICTED NET ASSETS		
Contributions for specific purposes	724,359	772,581
Net assets released from restrictions for operating purposes	(770,847)	(773,725)
	<u>(46,488)</u>	<u>(1,144)</u>
Decrease in temporarily restricted net assets		
INCREASE (DECREASE) IN NET ASSETS	1,695,960	(641,777)
NET ASSETS, BEGINNING OF YEAR	<u>6,991,549</u>	<u>7,633,326</u>
NET ASSETS, END OF YEAR	<u>\$ 8,687,509</u>	<u>\$ 6,991,549</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,695,960	\$ (641,777)
Adjustments to reconcile change in net assets to net cash from operating activities		
Provision for bad debts	171,636	310,507
Depreciation	227,536	217,909
Amortization	87,858	87,858
Contributions restricted by donors	(724,359)	(772,581)
Change in unrealized gains and losses on investments	(580,578)	777,874
Realized losses (gains), net	164,196	238,752
Changes in assets and liabilities		
Receivables	1,210,022	630,273
Prepaid expenses and supplies	(20,413)	(229,793)
Accounts payable and accrued expenses	(702,594)	(174,929)
Deferred revenue	(25,322)	13,778
NET CASH FROM OPERATING ACTIVITIES	<u>1,503,942</u>	<u>457,871</u>
INVESTING ACTIVITIES		
Purchase of assets limited as to use	(911,412)	(97,933)
Purchase of property and equipment	(315,516)	(125,535)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(1,226,928)</u>	<u>(223,468)</u>
FINANCING ACTIVITIES		
Repayments of long-term debt	(25,509)	(609,186)
Decrease in line of credit	-	(55,000)
Contributions restricted by donors	724,359	772,581
NET CASH FROM FINANCING ACTIVITIES	<u>698,850</u>	<u>108,395</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	975,864	342,798
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,103,365</u>	<u>760,567</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,079,229</u>	<u>\$ 1,103,365</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 4,496</u>	<u>\$ 30,737</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES**

The Organization entered into a capital lease obligation for equipment totaling \$84,626 during 2008.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*Organization and Principles of Consolidation*

Minnesota Visiting Nurse Agency (MVNA) is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Its purpose is to promote individual, family and community health through the administration of charitable, educational, and scientific activities and projects on its behalf or as the agent, trustee or representative of others. MVNA provides health and supportive services to individuals at their homes, primarily in Hennepin County. The mission of MVNA is to provide comprehensive and culturally competent community health and related services in collaboration with public health and health service providers to ensure the healthy future of Minnesota residents.

MVNA is the sole member of Hospice of the Twin Cities, Inc. (Hospice). Hospice is organized to offer comprehensive care focused on easing the physical, emotional and spiritual pain that often accompanies terminal illness. Hospice is organized as a Delaware nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

MVNA and the Hospice are referred to as the Organization.

The consolidated financial statements include the accounts of MVNA and the Hospice. All significant intercompany balances and transactions have been eliminated.

*Income Taxes*

The Organization has adopted the provisions of FASB Accounting Standards Codification Topic (ASC) 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) during 2009. The Organization undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities. The implementation of this standard had no material impact on the financial statements and no amounts were recorded as a result of this analysis.

*Fair Value Measurement*

The Organization has determined the fair value of certain assets and liabilities in accordance with accounting principles generally accepted in the United States of America (GAAP), which provides a framework for measuring fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Use of Estimates*

The preparation of financial statements in conformity with 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use.

### *Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. The Organization does not charge interest on outstanding patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

### *Supplies*

Supplies are stated at lower of cost (first-in, first-out) or market.

### *Investments and Investment Income*

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments in cash and money markets or certificates of deposit are measured at historical cost, plus any accrued interest, which is considered a reasonable estimate of fair value. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from revenues in excess of expenses unless the investments are considered trading securities.

As of December 31, 2009, the Organization changed the accounting classification of its investments in debt and equity securities from non-trading to trading. This change in classification requires the Organization to recognize unrealized gains and losses on investments as a component of other income (loss) in the consolidated statements of operations. Previously, changes in fair value of these investments were recorded as other changes in net assets to the extent these changes were unrealized at year end. Total unrealized losses included as a non-operating expense for the year ended December 31, 2009, was \$192,511, which included \$773,089 of unrealized losses related to prior periods and \$580,578 of unrealized gains related to the year ended December 31, 2009.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Assets Limited as to Use*

Assets limited as to use include assets set aside by the Board of Directors, over which the Board retains control and may at its discretion subsequently use for other purposes; assets restricted by donors; and endowment investments.

### *Goodwill*

Goodwill represents the excess of cost over the fair value of net assets acquired through the acquisition of Hospice in 2002 and is amortized over a ten-year period on the straight-line method.

### *Property and Equipment*

Property and equipment acquisitions in excess of \$1,000 for individual items and \$2,000 for group purchases are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the consolidated financial statements. The estimated useful lives of property and equipment are 2 to 20 years.

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets, and are excluded from revenues in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

### *Pledges Receivable*

Pledges, less any allowance for estimated uncollectible amounts, are recorded as receivables and temporarily restricted support in the year the pledge is made. Pledges receivable at December 31, 2009 and 2008 are \$739,639 and \$843,223, respectively, and are due within one year from the United Way, other corporations, and individuals.

### *Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

### *Revenues in Excess of Expenses*

Revenues in excess of expenses exclude unrealized gains and losses on investments other than trading securities, transfers of assets to and from related parties for other than goods and services, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Deferred Revenue*

Advances received in conjunction with exchange transactions are deferred and recognized as revenue as the agreed-upon services are performed.

### *Net Patient Service Revenue*

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### *Charity Care*

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

### *Collective Bargaining Agreements*

Collective bargaining agreements cover approximately 82 percent of MVNA's employees. These agreements were renegotiated during the 2008 fiscal year and are effective through the end of 2010.

### *Donor-restricted Gifts*

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. 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 donor stipulated time restrictions or purpose restrictions are met or accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations 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 consolidated statements of operations.

### *Advertising Costs*

Costs incurred for producing and distributing advertising are expensed as incurred.

### *Reclassifications*

Certain reclassifications of the 2008 amounts have been made in the accompanying consolidated financial statements to conform to the 2009 presentation.

### *Subsequent Events*

The Organization has evaluated subsequent events through June 16, 2010, the date which the consolidated financial statements were available to be issued.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 2 - CHARITY CARE

The Organization maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, approximated \$48,000 and \$68,000 for the years ended December 31, 2009 and 2008, respectively.

### NOTE 3 - NET PATIENT SERVICE REVENUE

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. As part of its operations, the Organization has contracts with various governmental agencies, which allow the Organization to provide support to the community. Revenue is recognized when earned under the terms of the contracts.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the year ended December 31, 2009 and 2008 increased approximately \$492,000 and \$246,000, respectively, due to reduction of liabilities associated with Medical Assistance overpayments no longer considered necessary (Note 13).

A summary of patient service revenue and contractual adjustments for the years ended December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 25,177,448</u>	<u>\$ 24,217,339</u>
Contractual adjustments		
Medicare	181,307	272,439
Medicaid	(956,335)	(733,524)
Commercial insurance	(1,181,523)	(869,238)
Other	<u>(794,110)</u>	<u>(732,817)</u>
Total contractual adjustments	<u>(2,750,661)</u>	<u>(2,063,140)</u>
Net patient service revenue	<u>\$ 22,426,787</u>	<u>\$ 22,154,199</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 4 - INVESTMENTS AND INVESTMENT INCOME

#### *Assets Limited as to Use*

The composition of assets limited as to use at December 31, 2009 and 2008, is shown in the following table. Investments in domestic and international equity securities, mutual funds, and other investments are stated at fair value. Cash and money market balances and the certificate of deposit are stated at face value due to the nearness to maturity, which approximates fair value.

	<u>2009</u>	<u>2008</u>
Cash and money market	\$ 1,738,524	\$ 975,327
Certificate of deposit	100,000	-
Domestic equity securities	900,587	748,505
International equity securities	586,324	382,722
Mutual funds	574,352	475,365
Other investments	26,794	16,868
	<u>\$ 3,926,581</u>	<u>\$ 2,598,787</u>

#### *Investments in an Unrealized Gain (Loss) Position*

Prior to the change in classification of investments in debt and equity securities to trading on December 31, 2009, the Organization evaluated investments for conditions that indicate whether an other-than-temporary decline in value has occurred. In conducting this review, numerous factors were considered that, individually or in combination, may indicate that a decline is other-than-temporary. Based on management's evaluation, the Organization recorded other-than-temporary losses on investments of approximately \$63,600 as of December 31, 2008. Investments in an unrealized gain (loss) position at December 31, 2008 are shown in the following table:

	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>
Domestic equity securities	\$ 614,572	\$ (394,398)	\$ 133,933	\$ 14,062
International equity securities	283,245	(173,521)	99,477	14,524
Mutual Funds	475,365	(215,413)	-	-
Other investments	8,322	(7,717)	8,546	1,331
	<u>\$ 1,381,504</u>	<u>\$ (791,049)</u>	<u>\$ 241,956</u>	<u>\$ 29,917</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Investment Income*

Investment income and gains and losses on assets limited as to use and cash equivalents consist of the following for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Other income (expense)		
Interest and dividend income	\$ 38,271	\$ 101,281
Realized losses on investments	(164,196)	(238,752)
Reclassification of cumulative unrealized gains and losses on investments	(192,511)	-
	<u>\$ (318,436)</u>	<u>\$ (137,471)</u>
Other changes in unrestricted net assets		
Reclassification of cumulative unrealized gains and losses on investments	\$ 192,511	\$ -
	<u>\$ 580,578</u>	<u>\$ (777,874)</u>

### NOTE 5 - PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2009 and 2008 follows:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Furniture, equipment, and leasehold improvements	<u>\$ 1,860,830</u>	<u>\$ 1,206,086</u>	<u>\$ 1,555,195</u>	<u>\$ 988,431</u>
Net property and equipment		<u>\$ 654,744</u>		<u>\$ 566,764</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 6 - LEASES

The Organization leases certain equipment and office space under noncancelable long-term lease agreements. Certain leases have been recorded as a capitalized lease and others as operating leases. Total lease expense for the years ended December 31, 2009 and 2008 for all operating leases was \$611,265 and \$604,332, respectively. The capitalized leased assets consist of:

	<u>2009</u>	<u>2008</u>
Equipment - Note 5	\$ 84,626	\$ 106,325
Less accumulated amortization (included as depreciation on the accompanying consolidated financial statements)	<u>(47,738)</u>	<u>(21,699)</u>
	<u>\$ 36,888</u>	<u>\$ 84,626</u>

Minimum future lease payments for the capital and operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2010	\$ 28,956	\$ 599,498
2011	12,065	584,611
2012	-	<u>149,601</u>
Total minimum lease payments	41,021	<u>\$ 1,333,710</u>
Less interest	<u>(1,933)</u>	
Present value of minimum capital lease payments - Note 7	<u>\$ 39,088</u>	

### NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Capitalized lease obligation - Note 6	\$ 39,088	\$ 64,597
Less current maturities	<u>(27,217)</u>	<u>(25,508)</u>
Long-term debt, less current maturities	<u>\$ 11,871</u>	<u>\$ 39,089</u>

MVNA has a line-of-credit arrangement with a local bank for \$1,000,000, which expires on July 30, 2010 and bears interest at a variable rate, which was 5 percent at December 31, 2009. Any outstanding balance is due on demand and secured by Board-designated investments and equipment of MVNA. The line of credit was unused at December 31, 2009 and 2008.

Hospice has a line-of-credit arrangement with a local bank for \$250,000, which expires on July 30, 2010 and bears interest at a variable rate, which was 5 percent at December 31, 2009. Any outstanding balance is due on demand and is secured by assets of Hospice. The line of credit was unused at December 31, 2009 and 2008.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 8 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
United Way, restricted as to time	\$ 680,620	\$ 760,568
Nursing scholarships, Club 100, and other	<u>50,056</u>	<u>16,596</u>
	<u>\$ 730,676</u>	<u>\$ 777,164</u>

Permanently restricted net assets at December 31, 2009 and 2008 are restricted to:

	<u>2009</u>	<u>2008</u>
Investments to be held in perpetuity, the income from which is expendable to support various health care services	<u>\$ 155,490</u>	<u>\$ 155,490</u>

In 2009 and 2008, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amounts of \$770,847 and \$773,725, respectively. These amounts are included in net assets released from restrictions in the accompanying consolidated financial statements.

### NOTE 9 - PENSION PLAN

The Organization sponsors a defined contribution tax deferred annuity plan for both MVNA and Hospice that covers substantially all employees. The Organization will match employee contributions up to 50 percent of the first 4 percent of salaries for employees who are active in the plan. The Organization also sponsors a money purchase plan covering substantially all employees. Contributions are 3 percent of each eligible employee's gross annual salary. Total pension plan expense for the years ended December 31, 2009 and 2008 was \$410,046 and \$413,892, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The Organization grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	18%	21%
Medicaid	18%	13%
Commercial insurance	42%	49%
Other third-party payors and patients	22%	17%
	<u>100%</u>	<u>100%</u>

The Organization's cash balances are maintained in various bank deposit accounts. At times, such deposits may be in excess of federally insured limits.

### NOTE 11 - FUNCTIONAL EXPENSES

The Organization provides health care services to patients within its geographic location. Expenses related to providing these services by functional class for the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Health care services	\$ 19,262,520	\$ 19,953,209
General and administrative	3,060,583	3,065,258
Fundraising	104,558	105,309
	<u>\$ 22,427,661</u>	<u>\$ 23,123,776</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 12 - FAIR VALUE MEASUREMENT

Assets measured at fair value on a recurring basis at December 31, 2009 and 2008 are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b><u>December 31, 2009</u></b>			
Domestic equity securities	\$ 900,587	\$ -	\$ -
International equity securities	586,324	-	-
Mutual funds	574,352	-	-
Other investments	26,794	-	-
	<u>2,088,057</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<b>\$ 2,088,057</b>	<b>\$ -</b>	<b>\$ -</b>
 <u>December 31, 2008</u>			
Domestic equity securities	\$ 748,505	\$ -	\$ -
International equity securities	382,722	-	-
Mutual funds	475,365	-	-
Other investments	16,868	-	-
	<u>1,623,460</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<b>\$ 1,623,460</b>	<b>\$ -</b>	<b>\$ -</b>

### NOTE 13 - COMMITMENTS AND CONTINGENCIES

#### *Malpractice Insurance – Health Care Industry*

MVNA has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$2 million per claim and an annual aggregate limit of \$4 million. Hospice has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

#### *Litigation, Claims, and Disputes*

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the Organization's financial position or results of operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes the Organization is in substantial compliance with current laws and regulations.

### *Settlement with the State of Minnesota - Medicaid*

The Medical Assistance program has intermittently made overpayments related to Hospice patients living in skilled nursing facilities. Management has been working with trade groups and industry representatives in an attempt to correct future Medical Assistance payment practices and resolve the historical overpayment issue. To date, these efforts have not resolved all historical overpayments across all affected Hospice programs. Hospice has repaid the Medical Assistance program approximately \$1,035,000 in overpayments received dating back to 1998. The Medical Assistance overpayments have resulted in a liability of \$328,899 and \$821,379 at December 31, 2009 and 2008, respectively, which is included in estimated third-party payor settlements in the consolidated balance sheets.

Management has consulted with legal counsel on the Medical Assistance payment issue and determined that Minnesota's general statute of limitations is expressly applicable to actions by or on behalf of the State and its political subdivisions and actions must be commenced within six years upon a contract or other obligation, express or implied, as to which no other limitation is prescribed. No other limitation is provided that would apply to Hospice's potential obligation to repay the Minnesota Department of Human Services for its payment errors for hospice services, and therefore, the statute of limitations is considered to be six years, measured from the date of each payment. Thus, management has reduced the liability based upon the expiration of the statute of limitations for the years expiring. The overpayment liability recorded will remain through August 2010, at which point the liability related to payment errors will exceed the statute of limitations.



CPAs & BUSINESS ADVISORS

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## INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING INFORMATION

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The Board of Directors  
**Minnesota Visiting Nurse Agency and Affiliate**  
Minneapolis, Minnesota

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

*Eide Bailly LLP*

Minneapolis, Minnesota  
June 16, 2010

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE**  
**CONSOLIDATING BALANCE SHEET INFORMATION - ASSETS**  
**DECEMBER 31, 2009**

<b>ASSETS</b>	<u>MVNA</u>	<u>Hospice</u>	<u>Eliminations</u>	<u>Total</u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 1,236,658	\$ 842,571	\$ -	\$ 2,079,229
Receivables				
Patient, net of estimated uncollectibles of approximately \$710,000	2,647,560	1,185,183	-	3,832,743
United Way and other pledges receivable	739,639	-	-	739,639
Related party	148,241	-	(148,241)	-
Prepaid expenses and supplies	314,660	25,609	-	340,269
Total current assets	<u>5,086,758</u>	<u>2,053,363</u>	<u>(148,241)</u>	<u>6,991,880</u>
<b>ASSETS LIMITED AS TO USE</b>				
Designated by Board	1,739,922	2,024,853	-	3,764,775
Restricted for scholarships	6,316	-	-	6,316
Endowment investments	155,490	-	-	155,490
Total assets limited as to use	<u>1,901,728</u>	<u>2,024,853</u>	<u>-</u>	<u>3,926,581</u>
<b>PROPERTY AND EQUIPMENT</b>	<u>414,655</u>	<u>240,089</u>	<u>-</u>	<u>654,744</u>
<b>OTHER ASSETS</b>				
Deposits	-	9,815	-	9,815
Goodwill, net of accumulated amortization of \$651,708	-	227,147	-	227,147
Total other assets	<u>-</u>	<u>236,962</u>	<u>-</u>	<u>236,962</u>
<b>Total assets</b>	<u><u>\$ 7,403,141</u></u>	<u><u>\$ 4,555,267</u></u>	<u><u>\$ (148,241)</u></u>	<u><u>\$ 11,810,167</u></u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE**  
**CONSOLIDATING BALANCE SHEET INFORMATION – LIABILITIES AND NET ASSETS**  
**DECEMBER 31, 2009**

	<u>MVNA</u>	<u>Hospice</u>	<u>Eliminations</u>	<u>Total</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Current maturities of long-term debt	\$ 27,217	\$ -	\$ -	\$ 27,217
Accounts payable				
Trade	256,705	440,748	-	697,453
Estimated third-party payor settlements	87,941	328,899	-	416,840
Related party	-	148,241	(148,241)	-
Deferred revenue	36,986	-	-	36,986
Accrued salaries and benefits	1,520,557	411,734	-	1,932,291
	<u>1,929,406</u>	<u>1,329,622</u>	<u>(148,241)</u>	<u>3,110,787</u>
Total current liabilities				
	1,929,406	1,329,622	(148,241)	3,110,787
 LONG-TERM DEBT, less current maturities	 <u>11,871</u>	 <u>-</u>	 <u>-</u>	 <u>11,871</u>
Total liabilities	<u>1,941,277</u>	<u>1,329,622</u>	<u>(148,241)</u>	<u>3,122,658</u>
 <b>NET ASSETS</b>				
Unrestricted				
Operating	2,848,967	1,187,601	-	4,036,568
Board designated	1,739,922	2,024,853	-	3,764,775
Temporarily restricted	717,485	13,191	-	730,676
Permanently restricted	155,490	-	-	155,490
	<u>5,461,864</u>	<u>3,225,645</u>	<u>-</u>	<u>8,687,509</u>
Total net assets				
	5,461,864	3,225,645	-	8,687,509
 Total liabilities and net assets	 <u>\$ 7,403,141</u>	 <u>\$ 4,555,267</u>	 <u>\$ (148,241)</u>	 <u>\$ 11,810,167</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION**  
**YEAR ENDED DECEMBER 31, 2009**

	<u>MVNA</u>	<u>Hospice</u>	<u>Eliminations</u>	<u>Total</u>
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>				
Net patient service revenue	\$ 13,819,520	\$ 8,723,480	\$ (116,213)	\$ 22,426,787
Other revenue	890	92,868	(107,679)	(13,921)
Unrestricted contributions	510,752	20,991	-	531,743
Net assets released from restrictions for operations	770,847	-	-	770,847
Total revenues, gains, and other support	<u>15,102,009</u>	<u>8,837,339</u>	<u>(223,892)</u>	<u>23,715,456</u>
<b>EXPENSES</b>				
Salaries and wages	8,761,608	3,861,318	-	12,622,926
Employee benefits	1,876,651	1,312,325	-	3,188,976
Purchased services	1,175,085	364,447	(223,892)	1,315,640
Supplies and other	2,831,857	1,976,736	-	4,808,593
Depreciation	180,115	47,421	-	227,536
Amortization	-	87,858	-	87,858
Interest	4,994	58	(556)	4,496
Provision for bad debts	155,986	15,650	-	171,636
Total expenses	<u>14,986,296</u>	<u>7,665,813</u>	<u>(224,448)</u>	<u>22,427,661</u>
<b>OPERATING INCOME</b>	<u>115,713</u>	<u>1,171,526</u>	<u>556</u>	<u>1,287,795</u>
<b>OTHER LOSS</b>				
Investment income (loss), net	(66,689)	(58,680)	(556)	(125,925)
Reclassification of cumulative unrealized gains and losses on investments	(72,022)	(120,489)	-	(192,511)
Total other loss	<u>(138,711)</u>	<u>(179,169)</u>	<u>(556)</u>	<u>(318,436)</u>
<b>REVENUES IN EXCESS OF (LESS THAN) EXPENSES</b>	(22,998)	992,357	-	969,359
<b>CHANGE IN UNREALIZED GAINS AND LOSSES ON INVESTMENTS</b>	291,582	288,996	-	580,578
<b>RECLASSIFICATION OF CUMULATIVE UNREALIZED GAINS AND LOSSES ON INVESTMENTS</b>	72,022	120,489	-	192,511
<b>TRANSFERS (TO) FROM RELATED PARTIES</b>	<u>576,972</u>	<u>(576,972)</u>	<u>-</u>	<u>-</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>\$ 917,578</u>	<u>\$ 824,870</u>	<u>\$ -</u>	<u>\$ 1,742,448</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS INFORMATION**  
**YEAR ENDED DECEMBER 31, 2009**

	<u>MVNA</u>	<u>Hospice</u>	<u>Eliminations</u>	<u>Total</u>
<b>UNRESTRICTED NET ASSETS</b>				
Revenues in excess of (less than) expenses	\$ (22,998)	\$ 992,357	\$ -	\$ 969,359
Change in unrealized gains and losses on investments	291,582	288,996	-	580,578
Reclassification of cumulative unrealized gains and losses on investments	72,022	120,489	-	192,511
Transfers (to) from related parties	<u>576,972</u>	<u>(576,972)</u>	<u>-</u>	<u>-</u>
Increase in unrestricted net assets	<u>917,578</u>	<u>824,870</u>	<u>-</u>	<u>1,742,448</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>				
Contributions for specific purposes	711,168	13,191	-	724,359
Net assets released from restrictions for operating purposes	<u>(770,847)</u>	<u>-</u>	<u>-</u>	<u>(770,847)</u>
Increase (decrease) in temporarily restricted net assets	<u>(59,679)</u>	<u>13,191</u>	<u>-</u>	<u>(46,488)</u>
<b>INCREASE IN NET ASSETS</b>	<b>857,899</b>	<b>838,061</b>	<b>-</b>	<b>1,695,960</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>4,603,965</u>	<u>2,387,584</u>	<u>-</u>	<u>6,991,549</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 5,461,864</u></u>	<u><u>\$ 3,225,645</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,687,509</u></u>