

**MINNESOTA VISITING NURSE AGENCY
AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

**MINNESOTA VISITING NURSE AGENCY
AND AFFILIATE
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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Minnesota Visiting Nurse Agency and Affiliate, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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. 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Minnesota Visiting Nurse Agency and Affiliate as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The consolidated financial statements of Minnesota Visiting Nurse Agency and Affiliate as of December 31, 2011 were audited by other auditors, whose report dated June 13, 2012, expressed an unmodified opinion on those consolidated statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 21 to 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such 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, including comparing and reconciling such 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 12, 2013

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,666,382	\$ 1,404,010
Receivables:		
Patient, Net	3,663,213	3,184,645
United Way and Other Pledges Receivable	524,504	456,117
Prepaid Expenses and Supplies	366,252	383,358
Total Current Assets	7,220,351	5,428,130
ASSETS LIMITED AS TO USE		
Designated by Board	4,741,199	4,412,908
Restricted for Scholarships	9,455	8,136
Endowment Investments	155,490	155,490
Total Assets Limited as to Use	4,906,144	4,576,534
PROPERTY AND EQUIPMENT, NET	653,810	467,387
OTHER ASSETS		
Deposits	9,815	9,815
Goodwill	227,147	227,147
Total Other Assets	236,962	236,962
 Total Assets	 \$ 13,017,267	 \$ 10,709,013

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 32,634	\$ 28,792
Accounts Payable:		
Trade	908,232	662,317
Estimated Third-Party Payor Settlements	32,313	32,269
Deferred Revenue	43,514	45,693
Accrued Salaries and Benefits	1,445,338	1,493,127
Total Current Liabilities	<u>2,462,031</u>	<u>2,262,198</u>
LONG-TERM DEBT, Less Current Maturities	<u>27,302</u>	<u>59,937</u>
Total Liabilities	2,489,333	2,322,135
NET ASSETS		
Unrestricted:		
Operating	5,204,793	3,331,469
Board Designated	4,741,199	4,412,908
Temporarily Restricted	426,452	487,011
Permanently Restricted	155,490	155,490
Total Net Assets	<u>10,527,934</u>	<u>8,386,878</u>
Total Liabilities and Net Assets	<u>\$ 13,017,267</u>	<u>\$ 10,709,013</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net Patient Service Revenue	\$ 19,539,795	\$ 19,011,574
Other Revenue	52,831	37,654
Unrestricted Contributions	286,954	451,606
Net Assets Released from Restrictions for Operations	449,851	618,164
Total Unrestricted Revenues, Gains, and Other Support	20,329,431	20,118,998
EXPENSES		
Salaries and Wages	10,685,108	11,161,181
Employee Benefits	2,514,869	3,108,033
Purchased Services	700,076	1,233,366
Supplies and Other	4,232,915	4,372,576
Depreciation	188,970	213,278
Interest	7,131	12,093
Provision for Bad Debts	96,000	158,171
Total Expenses	18,425,069	20,258,698
OPERATING INCOME (LOSS)	1,904,362	(139,700)
OTHER INCOME (LOSS)		
Loss on Disposal of Assets	(59,610)	-
Investment Income (Loss), Net	356,862	(82,323)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	\$ 2,201,614	\$ (222,023)

See accompanying Notes to Consolidated Financial Statements.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
UNRESTRICTED NET ASSETS		
Excess (Deficit) of Revenue over Expense	\$ 2,201,614	\$ (222,023)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions for Specific Purposes	389,293	456,952
Investment Loss	-	(8,176)
Net Assets Released from Restrictions for Operating Purposes	(449,851)	(618,164)
Decrease in Temporarily Restricted Net Assets	(60,558)	(169,388)
INCREASE (DECREASE) IN NET ASSETS	2,141,056	(391,411)
Net Assets - Beginning of Year	8,386,878	8,778,289
NET ASSETS - END OF YEAR	\$ 10,527,934	\$ 8,386,878

See accompanying Notes to Consolidated Financial Statements.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,141,056	\$ (391,411)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Provision for Bad Debts	96,000	158,171
Depreciation	188,970	213,278
Contributions Restricted by Donors	-	(456,952)
Net Realized Gains on Investments	(14,855)	(27,200)
Change in Unrealized (Gains) and Losses on Investments	(227,586)	207,129
Loss on Disposal of Property and Equipment	59,610	-
Changes in Assets and Liabilities:		
Receivables	(642,955)	386,282
Prepaid Expenses and Supplies	17,106	201,387
Accounts Payable and Accrued Expenses	198,170	(350,298)
Deferred Revenue	(2,179)	(13,890)
Net Cash Provided (Used) by Operating Activities	1,813,337	(73,504)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(1,186,139)	(1,518,953)
Proceeds from Sales of Investments	1,098,970	1,451,844
Purchase of Property and Equipment	(435,003)	(12,733)
Net Cash Used by Investing Activities	(522,172)	(79,842)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of Long-Term Debt	(28,793)	(25,402)
Contributions Restricted by Donor	-	456,952
Net Cash Provided (Used) by Financing Activities	(28,793)	431,550
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,262,372	278,204
Cash and Cash Equivalents - Beginning of Year	1,404,010	1,125,806
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,666,382	\$ 1,404,010

See accompanying Notes to Consolidated Financial Statements.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

Minnesota Visiting Nurse Agency (MVNA) is organized as a Minnesota nonprofit corporation. MVNA is organized 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.

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

Income Taxes

MVNA has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Hospice is organized as a Delaware nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). MVNA and Hospice are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, MVNA and Hospice may be subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Organization has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990T) with the IRS.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. The Organization files information returns as a tax exempt organization. Should that status be challenged in the future, all years since inception could be subject to review by the IRS. The tax returns for the years 2009 to 2012 are open to examination by federal, state and local authorities.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Financial Statement Presentation

Contributions received are recorded as an increase in unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Those resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization.

The Organization records restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

Fair Value Measurement

The Organization has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value measurement applies to reported balances that are required or permitted to be measured at fair value under an existing accounting standard. The Organization emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value Measurement (Continued)

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. See Note 11 to the consolidated financial statements for the fair value disclosures of the Organization's financial instruments.

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. The Organization places its temporary cash investments with financial institutions. At times such investments may be in excess of the FDIC insurance limit.

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 determines 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. At December 31, 2012 and 2011, the provision for bad debts was approximately \$809,800 and \$556,800, respectively.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market. The Organization has contractual relationships with vendors whereby it can sell back an agreed amount of unused and expired flu vaccine at cost.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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.

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.

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 and considered trading securities. 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 unrealized gains and losses on investments considered trading securities, 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.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Goodwill

Goodwill and intangible assets consist of patient records, non-compete agreements, and goodwill associated with business combinations. Goodwill represents the excess of cost over the fair value of the net assets acquired through the acquisition of Hospice in 2002.

On an annual basis and at interim periods when circumstances require, Hospice tests the recoverability of its goodwill. Hospice has the option, when each test of recoverability is performed, to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If Hospice determines that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then additional analysis is unnecessary. If Hospice concludes otherwise, then a two-step impairment analysis, whereby Hospice compares the carrying value of each identified reporting unit to its fair value, is required. The first step is to quantitatively determine if the carrying value of the reporting unit is greater than its fair value. If Hospice determines that this is true, the second step is required, where the implied fair value of goodwill is compared to its carrying value.

Hospice recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value. The fair value of the reporting unit is estimated using the net present value of discounted cash flows, excluding any financing costs or dividends, generated by each reporting unit. The discounted cash flows are based upon reasonable and appropriate assumptions about the underlying business activities of Hospice's reporting unit. Hospice performs its test for recoverability for goodwill at the same time each year, unless circumstances require additional analysis, and no impairments have resulted from this review.

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. Investment income on permanently restricted net assets is unrestricted after board appropriation.

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, 2012 and 2011 are \$524,504 and \$456,117, respectively, and are due within one year from the United Way, other corporations, and individuals.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

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.

Deferred Revenue

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

Excess (Deficit) of Revenue over Expense

Excess (deficit) of revenue over expense 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.

Advertising Costs

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

Collective Bargaining Agreements

A collective bargaining agreement covers approximately 50% of MVNA's employees. The collective bargaining agreement dated January 1, 2011 is effective through December 31, 2013.

Subsequent Events

In preparing these consolidated financial statements, the Organization has considered events and transactions that have occurred through June 12, 2013, the date which the consolidated financial statements were available to be issued.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 2 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.

A summary of patient service revenue and contractual adjustments for the years ended December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Total Patient Service Revenue	\$ 22,724,818	\$ 22,063,746
Contractual Adjustments:		
Medicare	33,214	58,704
Medicaid	(728,585)	(993,308)
Commercial Insurance	(1,668,874)	(1,323,327)
Other	<u>(820,778)</u>	<u>(794,241)</u>
Total Contractual Adjustments	<u>(3,185,023)</u>	<u>(3,052,172)</u>
Net Patient Service Revenue	<u>\$ 19,539,795</u>	<u>\$ 19,011,574</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 3 INVESTMENTS AND INVESTMENT INCOME

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2012 and 2011 is shown in the following table. Investments in equity securities and fixed income securities are stated at fair value. Cash and money market balances are stated at face value due to the nearness to maturity, which approximates fair value.

	<u>2012</u>	<u>2011</u>
Cash and Money Market	\$ 890,513	\$ 987,853
Equity Securities	2,650,844	2,673,343
Fixed Income Securities	1,364,787	915,338
Total	<u>\$ 4,906,144</u>	<u>\$ 4,576,534</u>

Investment Income

Investment income and gains and losses on assets limited as to use consists of the following for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investment Income (Loss):		
Interest and Dividend Income	\$ 114,421	\$ 97,606
Realized Gains on Investments	14,855	27,200
Unrealized Gains (Losses) on Investments	227,586	(207,129)
Total	<u>\$ 356,862</u>	<u>\$ (82,323)</u>
Changes in Temporarily Restricted Net Assets:		
Interest and Dividend Income (Loss)	<u>\$ -</u>	<u>\$ (8,176)</u>

NOTE 4 PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2012 and 2011 follows:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Furniture, Equipment, and Leasehold Improvements	<u>\$ 1,757,825</u>	<u>\$ 1,104,015</u>	<u>\$ 2,070,242</u>	<u>\$ 1,602,855</u>
Net Property and Equipment		<u>\$ 653,810</u>		<u>\$ 467,387</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 5 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, 2012 and 2011 for all operating leases was \$653,598 and \$622,408, respectively. The capitalized leased assets consist of:

	<u>2012</u>	<u>2011</u>
Equipment (Note 4)	\$ 120,000	\$ 120,000
Less: Accumulated Amortization (included as Depreciation on the accompanying Consolidated Financial Statements)	67,500	37,500
Total	<u>\$ 52,500</u>	<u>\$ 82,500</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>
2013	\$ 38,340	\$ 207,933
2014	28,755	234,445
2015	-	240,163
2016	-	245,881
2017	-	251,599
Thereafter	-	116,963
Total Minimum Lease Payments	<u>67,095</u>	<u>\$ 1,296,984</u>
Less: Interest	<u>7,159</u>	
Present Value of Minimum Capital Lease Payments (Note 7)	<u>\$ 59,936</u>	

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 6 LONG-TERM DEBT

Long-term debt consist of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Capitalized Lease Obligation (Note 6)	\$ 59,936	\$ 88,729
Less: Current Maturities	<u>32,634</u>	<u>28,792</u>
Long-Term Debt, Less Current Maturities	<u>\$ 27,302</u>	<u>\$ 59,937</u>

MVNA has a line of credit arrangement with a local bank for \$1,000,000, which expires on July 27, 2013 and bears interest at a variable rate equal to the lender's prime rate, which was 3.25% at the time the documents were signed in 2012. 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, 2012 and 2011.

Hospice also has a line of credit arrangement with a local bank for \$250,000, which expires on July 27, 2013 and bears interest at a variable rate equal to the lender's prime rate, which was 3.25% at the time the documents were signed in 2012. Any outstanding balance is due on demand and is secured by assets of Hospice. The line of credit was unused at December 31, 2012 and 2011.

NOTE 7 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
United Way, Restricted as to Time	\$ 360,939	\$ 420,872
Nursing Scholarships, Community of Caring, and Other	<u>65,513</u>	<u>66,139</u>
Total	<u>\$ 426,452</u>	<u>\$ 487,011</u>

Permanently restricted net assets at December 31, 2012 and 2011 are restricted to:

	<u>2012</u>	<u>2011</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 2012 and 2011, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amounts of \$449,851 and \$618,164, respectively. These amounts are included in net assets released from restrictions for operations in the accompanying consolidated financial statements.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 8 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% of the first 4% 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% of each eligible employee's gross annual salary. Total pension plan expense for the years ended December 31, 2012 and 2011 was \$319,513 and \$384,775, respectively.

NOTE 9 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, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	14 %	21 %
Medicaid	16	15
Commercial Insurance	44	37
Other Third-Party Payors and Patients	26	27
Total	<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 10 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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Health Care Services	\$ 15,208,529	\$ 16,763,198
General and Administrative	3,001,424	3,367,603
Fund Raising	215,116	127,897
Total	<u>\$ 18,425,069</u>	<u>\$ 20,258,698</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 11 FAIR VALUE MEASUREMENT

Assets measured at fair value on a recurring basis at December 31, 2012 and 2011 are as follows:

<u>December 31, 2012</u>	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Equity Securities	\$ 2,650,844	\$ -	\$ -
Fixed Income Securities	1,364,787	-	-
Total Assets	<u>\$ 4,015,631</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2011</u>	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Equity Securities	\$ 2,673,343	\$ -	\$ -
Fixed Income Securities	915,338	-	-
Total Assets	<u>\$ 3,588,681</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 12 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.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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.

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2012**

ASSETS	<u>MVNA</u>	<u>Hospice</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 1,635,304	\$ 1,031,078	\$ -	\$ 2,666,382
Receivables:				
Patient, Net	2,732,989	930,224	-	3,663,213
United Way and Other Pledges Receivable	524,504	-	-	524,504
Related Party	47,120	529,153	(576,273)	-
Prepaid Expenses and Supplies	<u>355,247</u>	<u>11,005</u>	-	<u>366,252</u>
Total Current Assets	5,295,164	2,501,460	(576,273)	7,220,351
ASSETS LIMITED AS TO USE				
Designated by Board	2,316,548	2,424,651	-	4,741,199
Restricted for Scholarships	9,455	-	-	9,455
Endowment Investments	<u>155,490</u>	<u>-</u>	<u>-</u>	<u>155,490</u>
Total Assets Limited as to Use	2,481,493	2,424,651	-	4,906,144
PROPERTY AND EQUIPMENT, NET	577,120	76,690	-	653,810
OTHER ASSETS				
Deposits	-	9,815	-	9,815
Goodwill	<u>-</u>	<u>227,147</u>	<u>-</u>	<u>227,147</u>
Total Other Assets	<u>-</u>	<u>236,962</u>	<u>-</u>	<u>236,962</u>
Total Assets	<u>\$ 8,353,777</u>	<u>\$ 5,239,763</u>	<u>\$ (576,273)</u>	<u>\$ 13,017,267</u>

LIABILITIES AND NET ASSETS	<u>MVNA</u>	<u>Hospice</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 32,634	\$ -	\$ -	\$ 32,634
Accounts Payable:				
Trade	579,650	328,582	-	908,232
Estimated Third-Party Payor Settlements	32,313	-	-	32,313
Related Party	529,153	47,120	(576,273)	-
Deferred Revenue	43,514	-	-	43,514
Accrued Salaries and Benefits	1,210,741	234,597	-	1,445,338
Total Current Liabilities	<u>2,428,005</u>	<u>610,299</u>	<u>(576,273)</u>	<u>2,462,031</u>
LONG-TERM DEBT, Less Current Maturities	<u>27,302</u>	<u>-</u>	<u>-</u>	<u>27,302</u>
Total Liabilities	2,455,307	610,299	(576,273)	2,489,333
NET ASSETS				
Unrestricted:				
Operating	3,016,578	2,188,215	-	5,204,793
Board Designated	2,316,548	2,424,651	-	4,741,199
Temporarily Restricted	409,854	16,598	-	426,452
Permanently Restricted	155,490	-	-	155,490
Total Net Assets	<u>5,898,470</u>	<u>4,629,464</u>	<u>-</u>	<u>10,527,934</u>
Total Liabilities and Net Assets	<u>\$ 8,353,777</u>	<u>\$ 5,239,763</u>	<u>\$ (576,273)</u>	<u>\$ 13,017,267</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2012**

	<u>MVNA</u>	<u>Hospice</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT				
Net Patient Service Revenue	\$ 12,778,320	\$ 7,087,147	\$ (325,672)	\$ 19,539,795
Other Revenue	20,826	68,867	(36,862)	52,831
Unrestricted Contributions	267,198	19,756	-	286,954
Net Assets Released from Restrictions for Operations	<u>442,405</u>	<u>7,446</u>	<u>-</u>	<u>449,851</u>
Total Unrestricted Revenues, Gains, and Other Support	13,508,749	7,183,216	(362,534)	20,329,431
EXPENSES				
Salaries and Wages	7,623,042	3,062,066	-	10,685,108
Employee Benefits	1,681,785	833,084	-	2,514,869
Purchased Services	796,194	266,416	(362,534)	700,076
Supplies and Other	2,336,440	1,896,475	-	4,232,915
Depreciation	129,864	59,106	-	188,970
Interest	7,131	-	-	7,131
Provision for Bad Debts	<u>90,000</u>	<u>6,000</u>	<u>-</u>	<u>96,000</u>
Total Expenses	<u>12,664,456</u>	<u>6,123,147</u>	<u>(362,534)</u>	<u>18,425,069</u>
OPERATING INCOME	844,293	1,060,069	-	1,904,362
OTHER INCOME (LOSS)				
Loss on Disposal of Assets	(59,610)	-	-	(59,610)
Investment Income	<u>188,296</u>	<u>168,566</u>	<u>-</u>	<u>356,862</u>
EXCESS OF REVENUE OVER EXPENSE	972,979	1,228,635	-	2,201,614
Transfers from (to) Related Parties	<u>499,702</u>	<u>(499,702)</u>	<u>-</u>	<u>-</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 1,472,681</u>	<u>\$ 728,933</u>	<u>\$ -</u>	<u>\$ 2,201,614</u>

**MINNESOTA VISITING NURSE AGENCY AND AFFILIATE
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2012**

	<u>MVNA</u>	<u>Hospice</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED NET ASSETS				
Excess of Revenue over Expense	\$ 972,979	\$ 1,228,635	\$ -	\$ 2,201,614
Transfers (to) from Related Parties	499,702	(499,702)	-	-
Increase in Unrestricted Net Assets	<u>1,472,681</u>	<u>728,933</u>	-	<u>2,201,614</u>
TEMPORARILY RESTRICTED NET ASSETS				
Contributions for Specific Purposes	377,228	12,065	-	389,293
Net Assets Released from Restrictions for Operating Purposes	<u>(442,405)</u>	<u>(7,446)</u>	-	<u>(449,851)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(65,177)</u>	<u>4,619</u>	-	<u>(60,558)</u>
INCREASE IN NET ASSETS	1,407,504	733,552	-	2,141,056
Net Assets - Beginning of Year	<u>4,490,966</u>	<u>3,895,912</u>	-	<u>8,386,878</u>
NET ASSETS - END OF YEAR	<u><u>\$ 5,898,470</u></u>	<u><u>\$ 4,629,464</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,527,934</u></u>