Consolidated Financial Statements
December 31, 2011 and 2010

Minnesota Visiting Nurse Agency and Affiliate

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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, 2011 and 2010, 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 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, 2011 and 2010, 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.

As discussed in Note 14, during 2011, Minnesota Visiting Nurse Agency and Affiliate adopted Accounting Standards Update No. 2011-08 associated with the assessment of goodwill for impairment.

Eide Bailly LLP

Minneapolis, Minnesota
June 13, 2012

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	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 1,404,010	$ 1,125,806
Receivables		
Patient, net of estimated uncollectibles of approximately $557,000 in 2011 and $440,000 in 2010	3,184,645	3,549,145
United Way and other pledges receivable	456,117	636,070
Prepaid expenses and supplies	383,358	584,745
Total current assets	5,428,130	5,895,766
Assets Limited as to Use		
Designated by Board	4,412,908	4,526,536
Restricted for scholarships	8,136	7,328
Endowment investments	155,490	155,490
Total assets limited as to use	4,576,534	4,689,354
Property and Equipment, Net	467,387	667,932
Other Assets		
Deposits	9,815	9,815
Goodwill	227,147	227,147
Total other assets	236,962	236,962
Total assets	$ 10,709,013	$ 11,490,014

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 28,792	$ 25,403
Accounts payable		
Trade	662,317	650,345
Estimated third-party payor settlements	32,269	120,473
Deferred revenue	45,693	59,583
Accrued salaries and benefits	1,493,127	1,767,193
Total current liabilities	2,262,198	2,622,997
Long-Term Debt, Less Current Maturities	59,937	88,728
Total liabilities	2,322,135	2,711,725
Net Assets		
Unrestricted		
Operating	3,331,469	3,439,864
Board designated	4,412,908	4,526,536
Temporarily restricted	487,011	656,399
Permanently restricted	155,490	155,490
Total net assets	8,386,878	8,778,289
Total liabilities and net assets	$ 10,709,013	$ 11,490,014

	2011	2010
Unrestricted Revenues, Gains, and Other Support		
Net patient service revenue	$ 19,011,574	$ 19,911,372
Other revenue	37,654	83,818
Unrestricted contributions	451,606	496,112
Net assets released from restrictions for operations	618,164	731,072
Total revenues, gains, and other support	20,118,998	21,222,374
Expenses		
Salaries and wages	11,161,181	12,001,649
Employee benefits	3,108,033	3,143,549
Purchased services	1,233,366	1,301,644
Supplies and other	4,372,576	4,566,932
Depreciation	213,278	237,273
Interest	12,093	1,219
Provision for bad debts	158,171	104,000
Total expenses	20,258,698	21,356,266
Operating Loss	(139,700)	(133,892)
Other Income (Losses)		
Investment income (loss), net	(82,323)	298,949
Revenues in Excess of (Less Than) Expenses and Increase (Decrease) in Unrestricted Net Assets	$ (222,023)	$ 165,057

	2011	2010
Unrestricted Net Assets		
Revenues in excess of (less than) expenses and increase (decrease) in unrestricted net assets	$ (222,023)	$ 165,057
Temporarily Restricted Net Assets		
Contributions for specific purposes	456,952	634,010
Investment income (loss)	(8,176)	22,785
Net assets released from restrictions for operating purposes	(618,164)	(731,072)
Decrease in temporarily restricted net assets	(169,388)	(74,277)
Increase (Decrease) in Net Assets	(391,411)	90,780
Net Assets, Beginning of Year	8,778,289	8,687,509
Net Assets, End of Year	$ 8,386,878	$ 8,778,289

	2011	2010
Operating Activities		
Change in net assets	$ (391,411)	$ 90,780
Adjustments to reconcile change in net assets to net cash (used for) from operating activities		
Provision for bad debts	158,171	104,000
Depreciation	213,278	237,273
Contributions restricted by donors	(456,952)	(634,010)
Net realized gains and losses on investments	(27,200)	63,696
Change in unrealized gains and losses on investments	207,129	(311,656)
Changes in assets and liabilities		
Receivables	386,282	283,167
Prepaid expenses and supplies	201,387	(244,476)
Accounts payable and accrued expenses	(350,298)	(508,573)
Deferred revenue	(13,890)	22,597
Net Cash used for Operating Activities	(73,504)	(897,202)
Investing Activities		
Purchases of investments	(1,518,953)	(2,794,112)
Proceeds from sales of investments	1,451,844	2,279,299
Purchase of property and equipment	(12,733)	(130,461)
Net Cash used for Investing Activities	(79,842)	(645,274)
Financing Activities		
Repayments of long-term debt	(25,402)	(44,957)
Contributions restricted by donors	456,952	634,010
Net Cash from Financing Activities	431,550	589,053
Net Increase (Decrease) in Cash and Cash Equivalents	278,204	(953,423)
Cash and Cash Equivalents, Beginning of Year	1,125,806	2,079,229
Cash and Cash Equivalents, End of Year	$ 1,404,010	$ 1,125,806

See Notes to Consolidated Financial Statements

Note 1 - Organization and 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 believes that it has appropriate support for any tax positions taken affecting its annual filing requirements and, as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense, if such interest and penalties are incurred.

Use of Estimates

The preparation of 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.

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 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. Valuation techniques are required to maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, 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.

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 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.

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.

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. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

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.

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, 2011 and 2010 are $456,117 and $636,070, respectively, and are due within one year from the United Way, other corporations, and individuals.

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.

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.

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.

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.

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.

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. The net patient service revenue for the year ended December 31, 2010 increased approximately $329,000, 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, 2011 and 2010 is as follows:

	2011	2010
Total patient service revenue	$ 22,063,746	$ 22,958,968
Contractual adjustments		
Medicare	58,704	99,799
Medicaid	(993,308)	(1,087,109)
Commercial insurance	(1,319,354)	(1,327,554)
Other	(798,214)	(732,732)
Total contractual adjustments	(3,052,172)	(3,047,596)
Net patient service revenue	$ 19,011,574	$ 19,911,372

Note 3 - Investments and Investment Income

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2011 and 2010, is shown in the following table. Investments in equity securities, fixed income securities, and mutual funds 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.

	2011	2010
Cash and money market	$ 987,853	$ 701,596
Equity securities	1,644,252	1,629,356
Fixed income securities	915,338	973,194
Mutual funds	1,029,091	1,385,208
	$ 4,576,534	$ 4,689,354

Investment Income

Investment income and gains and losses on assets limited as to use and cash equivalents, and other investments consists of the following for the years ended December 31, 2011 and 2010:

	2011	2010
Other income (expense)		
Interest and dividend income	$ 97,606	$ 50,989
Realized gains (losses) on investments	27,200	(63,696)
Unrealized gains (losses) on investments	(207,129)	311,656
	$ (82,323)	$ 298,949
Changes in temporarily restricted net assets		
Interest and dividend income (loss)	$ (8,176)	$ 22,785

Note 4 - Property and Equipment

A summary of property and equipment at December 31, 2011 and 2010 follows:

	2011		2010	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Furniture, equipment, and leasehold improvements	$ 2,070,242	$ 1,602,855	$ 2,044,024	$ 1,376,092
Net property and equipment		$ 467,387		$ 667,932

Note 5 - 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 $39,000 for the years ended December 31, 2011 and 2010.

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, 2011 and 2010 for all operating leases was $622,408 and $610,422, respectively. The capitalized leased assets consist of:

	2011	2010
Equipment - see Note 4	$ 120,000	$ 120,000
Less accumulated amortization (included as depreciation on the accompanying consolidated financial statements)	(37,500)	(7,500)
	$ 82,500	$ 112,500

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

Year Ending December 31,	Capital Leases	Operating Leases
2012	$ 38,340	$ 149,601
2013	38,340	-
2014	28,755	-
Total minimum lease payments	105,435	$ 149,601
Less interest	(16,706)	
Present value of minimum capital lease payments - Note 7	$ 88,729	

Note 7 - Long-Term Debt

Long-term debt consists of the following at December 31, 2011 and 2010:

	2011	2010
Capitalized lease obligation - Note 6	$ 88,729	$ 114,131
Less current maturities	(28,792)	(25,403)
Long-term debt, less current maturities	$ 59,937	$ 88,728

MVNA has a line of credit arrangement with a local bank for $1,000,000, which expires on July 28, 2012 and bears interest at a variable rate, which was 4.5% at December 31, 2011. 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, 2011 and 2010.

Hospice also has a line of credit arrangement with a local bank for $250,000, which expires on July 28, 2012 and bears interest at a variable rate, which was 4.5% at December 31, 2011. Any outstanding balance is due on demand and is secured by assets of Hospice. The line of credit was unused at December 31, 2011 and 2010.

Note 8 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2011 and 2010:

	2011	2010
United Way, restricted as to time	$ 420,872	$ 600,671
Nursing scholarships, Club 100, and other	66,139	55,728
	$ 487,011	$ 656,399

Permanently restricted net assets at December 31, 2011 and 2010 are restricted to:

	2011	2010
Investments to be held in perpetuity, the income from which is expendable to support various health care services	$ 155,490	$ 155,490

In 2011 and 2010, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes in the amounts of $618,164 and $731,072, 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% 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, 2011 and 2010 was $384,775 and $442,261, respectively.

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, 2011 and 2010 was as follows:

	2011	2010
Medicare	21%	26%
Medicaid	15%	19%
Commercial insurance	37%	29%
Other third-party payors and patients	27%	26%
	100%	100%

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, 2011 and 2010 are as follows:

	2011	2010
Health care services	$ 16,763,198	$ 18,538,132
General and administrative	3,367,603	2,711,792
Fundraising	127,897	106,342
	$ 20,258,698	$ 21,356,266

Note 12 - Fair Value Measurement

Assets measured at fair value on a recurring basis at December 31, 2011 and 2010 are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2011			
Equity securities			
U.S. large cap	$ 607,938	$ -	$ -
U.S. mid cap	269,202	-	-
U.S. small cap	162,425	-	-
International	508,077	-	-
Emerging markets	57,616	-	-
Other	38,994	-	-
Fixed income securities			
U.S. Government agencies	109,931	-	-
U.S. Treasury notes	285,104	-	-
Mortgage-backed/asset-backed	24,657	-	-
Corporate	495,646	-	-
Mutual funds			
Large cap equities	101,240	-	-
Long/short equities	119,920	-	-
Other equities	75,805	-	-
Corporate and government fixed income	475,194	-	-
Mortgage-backed fixed income	26,095	-	-
Other	75,513	-	-
Balanced	155,324	-	-
Total assets	$ 3,588,681	$ -	$ -

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2010			
Equity securities			
U.S. large cap	$ 603,287	$ -	$ -
U.S. mid cap	339,438	-	-
U.S. small cap	62,983	-	-
International	499,113	-	-
Emerging markets	93,859	-	-
Other	30,676	-	-
Fixed income securities			
Certificates of deposit	100,588	-	-
U.S. Government agencies	111,447	-	-
U.S. Treasury notes	235,201	-	-
Mortgage-backed/asset-backed	146,023	-	-
Corporate	379,935	-	-
Mutual funds			
Large cap equities	150,507	-	-
Long/short equities	286,127	-	-
Other equities	83,771	-	-
Corporate and government fixed income	453,385	-	-
Mortgage-backed fixed income	102,973	-	-
Other	62,802	-	-
Balanced	245,643	-	-
Total assets	$ 3,987,758	$ -	$ -

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.

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 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.

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 remained through August 2010, at which point the liability related to payment errors exceeded the statute of limitations.

Note 14 - Change in Accounting Principle

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment*, an entity may elect to assess qualitative factors in determining whether it is more likely than not that goodwill may be impaired. The Organization early implemented ASU 2011-08, during 2011, as allowable, and the adoption did not impact the Organization’s financial position, results of operations or cash flows.

Note 15 - Subsequent Events

The Organization has evaluated subsequent events through June 13, 2012, the date which the consolidated financial statements were available to be issued.

Consolidating Information
December 31, 2011 and 2010

Minnesota Visiting Nurse Agency and Affiliate

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Independent Auditor's Report on Consolidating Information

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

We have audited the consolidated financial statements of Minnesota Visiting Nurse Agency and Affiliate as of December 31, 2011 and 2010, and our report thereon dated June 13, 2012, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 20 to 23 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual organizations, and it is not a required part of the basic 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 consolidating information on pages 20 to 23 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Eide Bailly LLP

Minneapolis, Minnesota
June 13, 2012

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	MVNA	Hospice	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 651,724	$ 752,286	$ -	$ 1,404,010
Receivables				
Patient, net of estimated uncollectibles of $557,000	2,272,193	912,452	-	3,184,645
United Way and other pledges receivable	456,117	-	-	456,117
Related party	47,800	379,332	(427,132)	-
Prepaid expenses and supplies	375,674	7,684	-	383,358
Total current assets	3,803,508	2,051,754	(427,132)	5,428,130
Assets Limited as to Use				
Designated by Board	2,175,723	2,237,185	-	4,412,908
Restricted for scholarships	8,136	-	-	8,136
Endowment investments	155,490	-	-	155,490
Total assets limited as to use	2,339,349	2,237,185	-	4,576,534
Property and Equipment, Net	331,592	135,795	-	467,387
Other Assets				
Deposits	-	9,815	-	9,815
Goodwill	-	227,147	-	227,147
Total other assets	-	236,962	-	236,962
Total assets	$ 6,474,449	$ 4,661,696	$ (427,132)	$ 10,709,013

	MVNA	Hospice	Eliminations	Total
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	$ 28,792	$ -	$ -	$ 28,792
Accounts payable				
Trade	202,852	459,465	-	662,317
Estimated third-party payor settlements	32,269	-	-	32,269
Related party	379,332	47,800	(427,132)	-
Deferred revenue	45,693	-	-	45,693
Accrued salaries and benefits	1,234,608	258,519	-	1,493,127
Total current liabilities	1,923,546	765,784	(427,132)	2,262,198
Long-Term Debt, Less Current Maturities	59,937	-	-	59,937
Total liabilities	1,983,483	765,784	(427,132)	2,322,135
Net Assets				
Unrestricted				
Operating	1,684,721	1,646,748	-	3,331,469
Board designated	2,175,723	2,237,185	-	4,412,908
Temporarily restricted	475,032	11,979	-	487,011
Permanently restricted	155,490	-	-	155,490
Total net assets	4,490,966	3,895,912	-	8,386,878
Total liabilities and net assets	$ 6,474,449	$ 4,661,696	$ (427,132)	$ 10,709,013

	MVNA	Hospice	Eliminations	Total
Unrestricted Revenues, Gains, and Other Support				
Net patient service revenue	$ 11,900,518	$ 7,367,078	$ (256,022)	$ 19,011,574
Other revenue	27,267	10,387	-	37,654
Unrestricted contributions	427,306	24,300	-	451,606
Net assets released from restrictions for operations	612,134	6,030	-	618,164
Total revenues, gains, and other support	12,967,225	7,407,795	(256,022)	20,118,998
Expenses				
Salaries and wages	7,820,340	3,340,841	-	11,161,181
Employee benefits	2,022,003	1,086,030	-	3,108,033
Purchased services	1,064,038	418,247	(248,919)	1,233,366
Supplies and other	2,422,787	1,949,789	-	4,372,576
Depreciation	159,173	61,208	(7,103)	213,278
Interest	12,093	-	-	12,093
Provision for bad debts	149,860	8,311	-	158,171
Total expenses	13,650,294	6,864,426	(256,022)	20,258,698
Operating Income (Loss)	(683,069)	543,369	-	(139,700)
Other Income				
Investment income (loss)	2,082	(84,405)	-	(82,323)
Revenues in Excess of (Less Than) Expenses	(680,987)	458,964	-	(222,023)
Transfers From (To) Related Parties	282,087	(282,087)	-	-
Increase (Decrease) in Unrestricted Net Assets	$ (398,900)	$ 176,877	$ -	$ (222,023)

	MVNA	Hospice	Eliminations	Total
Unrestricted Net Assets				
Revenues in excess of (less than) expenses	$ (680,987)	$ 458,964	$ -	$ (222,023)
Transfers (to) from related parties	282,087	(282,087)	-	-
Increase (decrease) in unrestricted net assets	(398,900)	176,877	-	(222,023)
Temporarily Restricted Net Assets				
Contributions for specific purposes	451,504	5,448	-	456,952
Investment loss	(8,176)	-	-	(8,176)
Net assets released from restrictions for operating purposes	(612,134)	(6,030)	-	(618,164)
Decrease in temporarily restricted net assets	(168,806)	(582)	-	(169,388)
Increase (Decrease) in Net Assets	(567,706)	176,295	-	(391,411)
Net Assets, Beginning of Year	5,058,672	3,719,617	-	8,778,289
Net Assets, End of Year	$ 4,490,966	$ 3,895,912	$ -	$ 8,386,878