FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

FLOYD VALLEY HOME MEDICAL EQUIPMENT

FLOYD VALLEY HOME MEDICAL EQUIPMENT

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Floyd Valley Home Medical Equipment
Le Mars, Iowa

We have audited the accompanying balance sheets of **Floyd Valley Home Medical Equipment**, as of June 30, 2009 and 2008, and the related statements of income and partners' capital, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Floyd Valley Home Medical Equipment**, as of June 30, 2009 and 2008, and the results of its income and changes in partners' capital, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2010 on our consideration of **Floyd Valley Home Medical Equipment's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Eide Bailly LLP

Dubuque, Iowa
January 20, 2010

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FLOYD VALLEY HOME MEDICAL EQUIPMENT
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 7,850**	$ 21,783
Receivables		
Trade, less allowance for doubtful accounts and contractual allowances of $21,178 in 2009 and $22,680 in 2008	**80,050**	92,185
Related party	**79,654**	112,922
Inventories	**51,254**	48,908
Prepaid expenses	**1,064**	963
Total current assets	**219,872**	276,761
PROPERTY AND EQUIPMENT, net	**43,180**	60,054
Total assets	**$ 263,052**	$ 336,815
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES		
Accounts payable		
Trade	**$ -**	$ 330
Related party	**11,391**	10,065
Accrued expenses	**251**	210
Total current liabilities	**11,642**	10,605
PARTNERS' CAPITAL	**251,410**	326,210
Total liabilities and partners' capital	**$ 263,052**	$ 336,815

FLOYD VALLEY HOME MEDICAL EQUIPMENT
STATEMENTS OF INCOME AND PARTNERS' CAPITAL
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
REVENUES		
Retail sales	$ 164,261	$ 137,635
Rental fees	306,529	365,189
Gross revenues	470,790	502,824
Less: Returns, contractual adjustments, and allowances	96,544	97,846
Net revenues	374,246	404,978
COST OF REVENUES	118,001	111,656
GROSS PROFIT	256,245	293,322
OPERATING EXPENSES		
Contract labor	138,199	117,247
Management fees	46,155	53,118
Rent	15,860	14,676
Advertising	3,392	1,661
Other	18,596	14,119
Insurance	2,027	2,354
Depreciation	424	2,705
Provision for bad debts	7,563	3,643
Total operating expenses	232,216	209,523
OPERATING INCOME	24,029	83,799
OTHER INCOME		
Interest income	171	1,788
NET INCOME	$ 24,200	$ 85,587
PARTNERS' CAPITAL, BEGINNING OF YEAR	$ 326,210	$ 383,623
Net income	24,200	85,587
Distributions to partners	(99,000)	(143,000)
PARTNERS' CAPITAL, END OF YEAR	$ 251,410	$ 326,210

FLOYD VALLEY HOME MEDICAL EQUIPMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING ACTIVITIES		
Cash received from customers	**$ 412,086**	$ 270,040
Cash paid to suppliers	**(313,224)**	(309,897)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	**98,862**	(39,857)
INVESTING ACTIVITIES		
Interest earned on cash and cash equivalents	**171**	1,788
Purchase of property and equipment	**(13,966)**	(5,785)
NET CASH USED FOR INVESTING ACTIVITIES	**(13,795)**	(3,997)
NET CASH USED FOR FINANCING ACTIVITIES		
Distributions to partners	**(99,000)**	(143,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(13,933)**	(186,854)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**21,783**	208,637
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 7,850**	$ 21,783

RECONCILIATION OF NET INCOME TO NET CASH FROM (USED FOR) OPERATING ACTIVITIES		
Operating income	**$ 24,029**	$ 83,799
Charges and credits to net income not affecting cash		
Depreciation	**25,648**	29,195
Provisions for losses on accounts receivable	**(1,502)**	(186)
Loss (gain) on disposal of equipment	**5,192**	(1,138)
Change in assets and liabilities		
Receivables	**46,905**	(131,109)
Inventories	**(2,346)**	486
Prepaid expenses	**(101)**	428
Accounts payable	**996**	(21,401)
Accrued expenses	**41**	69
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	**$ 98,862**	$ (39,857)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

Floyd Valley Home Medical Equipment, ("Company") a joint venture organized under Section 28E of the Code of Iowa, sells and rents durable medical equipment and supplies to individuals in the community of Lemars, Iowa and its surrounding area.

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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are uncollateralized customer and third-party payor obligations. Unpaid receivables, excluding amounts due from third-party payors, with invoice dates over 90 days old have interest assessed at 1 percent per month. These interest charges are recognized as income when charged.

Payments of accounts receivable 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 accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from customers and third-party payors. Management reviews 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 and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment, excluding rental equipment, in excess of $1,000, are capitalized and recorded at cost. Depreciation is computed using straight-line method over the following estimated useful lives:

Equipment	5 - 15 years
Rental equipment	4 - 5 years

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Income Taxes

The joint venture is not subject to income taxes. Instead, the Company files Form 1065 with the Internal Revenue Service and distributes K-1's to the partners, who in turn report their proportionate share of income individually.

In July 2006, Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) was issued. Subsequent to its original issuance, the effective date of its implementation for nonpublic enterprises has been deferred, and is currently deferred for nonpublic entities until years beginning after December 15, 2008. The Corporation has elected to defer implementation of FIN 48, as allowable.

The Corporation undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by FIN 48.

Sales Taxes

The Company collects sales taxes from its customers and remits the entire amount to the various governmental units. The Company's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

Advertising Costs

The Company expenses advertising costs as incurred.

Subsequent Events

The Corporation has evaluated subsequent events through January 20, 2010, the date which the financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

A summary of equipment at June 30, 2009 and 2008, is as follows:

	2009		2008	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Equipment	**$ 27,985**	**$ 25,162**	$ 27,985	$ 24,739
Rental equipment	**185,789**	**145,432**	181,625	124,817
	$ 213,774	**$ 170,594**	$ 209,610	$ 149,556
Net property and equipment		**$ 43,180**		$ 60,054

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NOTE 3 - RELATED PARTY TRANSACTIONS

Floyd Valley Home Medical Equipment is a joint venture between Floyd Valley Hospital and Avera Home Medical Equipment. Transactions between these organizations were as follows for the years ended June 30, 2009 and 2008:

	2009	2008
Contract labor	**$ 138,199**	$ 117,247
Management fees	**46,155**	53,118
Rent expense	**15,860**	14,676

NOTE 4 - LEASES

The Company leases building space on a month-to-month basis under an operating lease agreement. In addition to basic monthly rent, the Company is required to pay costs of occupancy such as maintenance and insurance. Total rent expense was $15,860 and $14,676 for the years ended June 30, 2009 and 2008, respectively.

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

The Company 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 June 30, 2009 and 2008, was as follows:

	2009	2008
Medicare	**11%**	11%
Medicaid	**14%**	12%
Blue Cross	**25%**	22%
Commercial insurance	**21%**	22%
Other third-party payors and customers	**29%**	33%
	100%	100%

The Company's cash balance is maintained in a bank deposit account. At various times during the years ended June 30, 2009 and 2008, the balance of these deposits was in excess of federally insured limits.

FLOYD VALLEY HOME MEDICAL EQUIPMENT

SUPPLEMENTAL REPORT ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE

EideBailly

CPAs & BUSINESS ADVISORS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Floyd Valley Home Medical Equipment
Le Mars, Iowa

We have audited the financial statements of **Floyd Valley Home Medical Equipment**, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operations that we consider to be a significant deficiency. Significant deficiencies involve matters coming to our attention relating to deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Company's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The significant deficiency is described in the accompanying Schedule of Findings as Finding No. 04-1. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

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Compliance

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Dubuque, Iowa
January 20, 2010

CURRENT YEAR AUDIT FINDINGS:

FINDING NO. 04-1 – Segregation of Duties

Condition: The Company has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that not one individual handles a transaction from its inception to its completion.

Effect: Inadequate segregation of duties could adversely affect the Company's ability to detect misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: Management does not plan to respond to the finding, as management believes it is not possible to implement a cost effective solution at this time.

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PRIOR YEAR AUDIT FINDING:

Finding 04-1 "Segregation of Duties" has been repeated for the year ended June 30, 2009.

Board of Directors
Floyd Valley Home Medical Equipment
Lemars, Iowa

We have audited the financial statements of **Floyd Valley Home Medical Equipment** (Company) for the year ended June 30, 2009, and have issued our report thereon dated January 20, 2010. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

As stated in our engagement letter dated June 2, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed with the Avera Health Audit Committee in our planning meeting on June 15, 2009, in addition to our engagement letter to you dated June 2, 2009.

SIGNIFICANT AUDIT FINDINGS AND CONSIDERATIONS

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Organization, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the above paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

We consider the following deficiency to be a significant deficiency in internal control:

Limited Size of Office Staff

It is desirable, from the standpoint of good internal controls, that the functions of execution of transactions, recording of transactions, and accountability for assets be performed by different individuals. We realize that, in an organization of your size, complete segregation of duties may not be possible; however, we bring this to your attention as a matter of record.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control. We do not believe the deficiency noted above constitutes a material weakness.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectability of patient receivables and depreciation expense.

Allowance for Contractuals and Doubtful Accounts - Management's estimate of the allowance for contractuals and doubtful accounts is based on historical loss levels and an analysis of the collectability of individual accounts.

Depreciation Expense- Management's estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop the estimates related to the collectability of patient receivables, amount either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Corrected And Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

There was one uncorrected misstatement noted as a part of the audit, related to estimated contractual allowances. The income statement effect would have been a $2,000 decrease to net income.

None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 20, 2010.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings Or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTER

Inventory Obsolescence Reserve

In conjunction with testing procedures performed on inventory, we identified a significant amount of slow moving inventory. It is the position of management that it is not necessary to have an obsolete inventory reserve, and that the inventory items are not undervalued. However, there is currently no policy in place to identify and aggregate data related to obsolescence concerns. It is our recommendation that a policy be developed and put into place to identify and value slow moving inventory.

Updating of Management and Personnel Agreements

In conjunction with audit procedures performed we noted that terms on both the Management Services Agreement and the Personnel Services Agreement have run out and the agreements have not been updated. We recommend that these agreements be updated with new or indefinite terms going forward.

* * * * *

This report is intended solely for the use of the Board of Directors, management, and others within the Company and is not intended to be and should not be used by anyone other than these specified parties.

We will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation we received during the course of the audit. We look forward to many years of continued service to Floyd Valley Home Medical Equipment.

Eide Bailly LLP

Dubuque, Iowa
January 20, 2010