

HEALTH PARTNERS OF SOUTHWEST IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2004 AND 2003

HEALTH PARTNERS OF SOUTHWEST IOWA

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HEALTH PARTNERS OF SOUTHWEST IOWA
Members
June 30, 2004

| <u>Members</u> | <u>Location</u> | <u>Representatives</u> |
|--|-----------------|------------------------|
| Cass County Memorial Hospital | Atlantic, Iowa | Patricia Markham |
| Montgomery County Memorial Hospital | Red Oak, Iowa | Allen Pohren |
| Shelby County Myrtue Memorial Hospital | Harlan, Iowa | Steve Goeser* |

* - Resigned in June, 2004

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

ROGER A. BELL
MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Members of
Health Partners of Southwest Iowa

We have audited the accompanying balance sheets of Health Partners of Southwest Iowa (a 28E Organization) as of June 30, 2004 and 2003 and the related statements of operations and changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the members. 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, 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 and provisions 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 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.

Government Auditing Standards Board Statement #34 requires governmental entities to present Management's Discussion and Analysis with their audited financial statements. The management of Health Partners of Southwest Iowa has elected to omit this required supplementary information from these bound financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Partners of Southwest Iowa as of June 30, 2004 and 2003 and the results of its operations, changes in members' equity, 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 August 31, 2004 on our consideration of Health Partners of Southwest Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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 audit.

Gronewold, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
August 31, 2004

HEALTH PARTNERS OF SOUTHWEST IOWA
Balance Sheets
June 30,

ASSETS

| | <u>2004</u> | <u>2003</u> |
|-------------------------------|-------------------|-------------------|
| Current Assets: | | |
| Cash | \$ 259,989 | \$ 543,521 |
| Accounts receivable - members | 36,204 | 233,232 |
| - other hospitals | 20,064 | 28,417 |
| Prepaid expenses | <u>2,542</u> | <u>644</u> |
| Total current assets | 318,799 | 805,814 |
| Equipment | 641,264 | 273,145 |
| Less accumulated depreciation | <u>171,196</u> | <u>180,417</u> |
| | <u>470,068</u> | <u>92,728</u> |
| Total assets | <u>\$ 788,867</u> | <u>\$ 898,542</u> |

LIABILITIES AND MEMBERS' EQUITY

| | | |
|---|-------------------|-------------------|
| Current Liabilities: | | |
| Accounts payable | \$ 11,501 | \$ 8,496 |
| Due to members | <u>51,424</u> | <u>263,895</u> |
| Total liabilities | 62,925 | 272,391 |
| Members' Equity: | | |
| Invested in capital assets, net of related debt | 470,068 | 92,728 |
| Unrestricted | <u>255,874</u> | <u>533,423</u> |
| Total members' equity | <u>725,942</u> | <u>626,151</u> |
| Total liabilities and members' equity | <u>\$ 788,867</u> | <u>\$ 898,542</u> |

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA
 Statements of Operations and Changes in Members' Equity
 Year ended June 30,

| | <u>2004</u> | <u>2003</u> |
|------------------------------------|-------------------|-------------------|
| Revenues: | | |
| Spect Imaging revenue | \$ 310,734 | \$ 341,285 |
| Sleep Study revenue | 164,000 | 138,900 |
| Other services revenue | 100,421 | 117,457 |
| Grant income | -- | 63,000 |
| | <u>575,155</u> | <u>660,642</u> |
| Operating Expenses: | | |
| Contract labor | 238,653 | 249,357 |
| Amortization | -- | 1,600 |
| Cost of nuclide | 51,023 | 58,663 |
| Credential expense | 3,294 | 5,295 |
| Depreciation | 79,973 | 30,596 |
| Dues and subscriptions | 679 | 400 |
| Education | 837 | 1,737 |
| Insurance | 1,200 | 1,200 |
| Licenses | 7,619 | 211 |
| Member grant reimbursement | -- | 63,000 |
| Member services | 18,697 | 29,629 |
| Miscellaneous expense | 1,766 | 1,127 |
| Legal and accounting | 11,931 | 11,524 |
| Postage | 18,055 | -- |
| Repairs and maintenance | 21,615 | 23,761 |
| Supplies | 10,046 | 15,530 |
| Telephone | 753 | 865 |
| Travel | 10,661 | 11,434 |
| Truck operation | <u>4,660</u> | <u>4,483</u> |
| Total operating expenses | <u>481,462</u> | <u>510,412</u> |
| Operating Income | 93,693 | 150,230 |
| Non-Operating Income: | | |
| Investment income | <u>6,098</u> | <u>9,978</u> |
| Excess of Revenues Over Expenses | 99,791 | 160,208 |
| Members' Equity, Beginning of Year | <u>626,151</u> | <u>465,943</u> |
| Members' Equity, End of Year | <u>\$ 725,942</u> | <u>\$ 626,151</u> |

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA
Statements of Cash Flows
Year ended June 30,

| | 2004 | 2003 |
|--|------------|------------|
| Cash flows from operating activities: | | |
| Cash received from clients and members | \$ 449,123 | \$ 448,154 |
| Cash paid to suppliers | (281,440) | (353,713) |
| Grant income received | -- | 63,000 |
| Net cash provided by operating activities | 167,683 | 157,441 |
| Cash flows from capital and related financing activities: | | |
| Capital expenditures | (457,313) | -- |
| Cash flows from investing activities: | | |
| Investment income | 6,098 | 9,978 |
| Net increase (decrease) in cash | (283,532) | 167,419 |
| Cash, beginning of year | 543,521 | 376,102 |
| Cash, end of year | \$ 259,989 | \$ 543,521 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 93,693 | \$ 150,230 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Amortization | -- | 1,600 |
| Depreciation | 79,973 | 30,596 |
| Changes in assets and liabilities | | |
| Accounts receivable | 205,381 | (149,488) |
| Prepaid expenses | (1,898) | (644) |
| Accounts payable | 3,005 | (2,864) |
| Due to members | (212,471) | 128,011 |
| Total adjustments | 73,990 | 7,211 |
| Net cash provided by operating activities | \$ 167,683 | \$ 157,441 |

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Health Partners of Southwest Iowa was formed in 1996 pursuant to the provisions of Chapter 28E of the Code of Iowa. The Organization was formed to share ideas, capital, and human resources to effect economies of scale and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the service areas of the member Hospitals.

The governing body of the Organization is composed of one representative from each of the three participating entities. The participating entities are Cass County Memorial Hospital, Montgomery County Memorial Hospital, and Shelby County Myrtue Memorial Hospital. Each participating entity owns an equal share in the organization.

2. Basis of Accounting

The accounts of the Organization are maintained as one proprietary fund which is considered to be a separate entity. The operations of the proprietary fund are accounted for by providing a set of self-balancing accounts which comprise its assets, liabilities, member equity, revenues and expenditures.

The accompanying financial statements have been prepared using the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

3. Use of Estimates

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

4. Accounting Standards

The Organization reports its financial activity in accordance with all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Equipment

Equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method.

6. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less.

The Organization's deposits at June 30, 2004 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa, because they are deposited as a sub-account of Cass County Memorial Hospital. The Organization's deposits consist of checking and savings accounts.

7. Accounts Receivable

The Organization considers accounts receivable to be fully collectible, accordingly, no allowance for doubtful accounts is required.

NOTE B - CAPITAL ASSETS

Organization capital assets, additions, disposals and balances for the years ended June 30, 2004 and 2003 were as follows:

| | <u>Balance 2003</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2004</u> |
|----------------|-------------------------|--------------------|------------------|-------------------------|
| Equipment Cost | \$ 273,145 | \$ 458,270 | \$ 90,151 | \$ 641,264 |
| Depreciation | <u>180,417</u> | <u>79,973</u> | <u>89,194</u> | <u>171,196</u> |
| Equipment, Net | <u>\$ 92,728</u> | <u>\$ 378,297</u> | <u>\$ 957</u> | <u>\$ 470,068</u> |
| | <u>Balance 2002</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2003</u> |
| Equipment Cost | \$ 273,145 | \$ -- | \$ -- | \$ 273,145 |
| Depreciation | <u>149,821</u> | <u>30,596</u> | <u>--</u> | <u>180,417</u> |
| Equipment, Net | <u>\$ 123,324</u> | <u>\$(30,596)</u> | <u>\$ --</u> | <u>\$ 92,728</u> |

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2004 and 2003

NOTE C - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa is a joint venture of three hospitals including Cass County Memorial Hospital (CCMH), Montgomery County Memorial Hospital (MCMH), and Shelby County Myrtue Memorial Hospital (SCMMH). Each of the three hospitals purchase mobile scanning and other services from the Organization. In addition, the hospitals are reimbursed for supplies and labor provided to the joint venture. Below is a list of amounts due to or from Health Partners of Southwest Iowa by the members at year end and the transactions between the Organization and members during the years ended:

| | <u>CCMH</u> | <u>MCMH</u> | <u>SCMMH</u> |
|---|-------------|-------------|--------------|
| <u>June 30, 2004</u> | | | |
| Due from hospitals | \$ -- | \$ 22,682 | \$ 13,522 |
| Due (to) hospitals | (48,411) | -- | (3,013) |
| Services rendered to hospitals | 137,849 | 152,037 | 98,785 |
| Services and supplies purchased through hospitals | 230,037 | 11,913 | 58,790 |
| <u>June 30, 2003</u> | | | |
| Due from hospitals | \$ 193,522 | \$ 27,422 | \$ 12,288 |
| Due (to) hospitals | (260,571) | -- | (3,324) |
| Services rendered to hospitals | 144,213 | 149,007 | 90,024 |
| Services and supplies purchased through hospitals | 257,499 | 14,884 | 40,671 |

NOTE D - CONTINGENCIES

Economic Dependency

The Organization currently derives the majority of its revenue from providing mobile Spect Imaging services and Sleep Study services. Approximately 67% of its revenue is through transactions with member hospitals. The Organization also purchases most of its contract labor (approximately 62% of its expenses) from member hospitals.

Risk Management

The Organization is insured for protection against liability claims resulting from professional services provided or which should have been provided through liability insurance contracts of each of the individual members. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Health Partners of Southwest Iowa is exposed to various other common business risks for which it is covered by commercial insurance of the individual members. Settled claims from these risks have not exceeded insurance coverage during any of the past three years.

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2004 and 2003

NOTE E - NON-CASH TRANSACTION

The cash transactions of the Organization are presented on the statements of cash flows. The Organization also incurred the following non-cash transaction in addition to the transactions reflected in the reconciliation of operating income to net cash provided by operating activities.

| | <u>2004</u> | <u>2003</u> |
|----------------------------|---------------|--------------|
| Book value of asset traded | <u>\$ 957</u> | <u>\$ --</u> |

* * *

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
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FAX (712) 243-1265
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Members of
Health Partners of Southwest Iowa

We have audited the financial statements of Health Partners of Southwest Iowa as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether Health Partners of Southwest Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, and contracts, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Health Partners of Southwest Iowa'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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Health Partners of Southwest Iowa's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

To the Members of
Health Partners of Southwest Iowa

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of Health Partners of Southwest Iowa and other parties to whom the Organization may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kehlman & Co. P.C.

Atlantic, Iowa
August 31, 2004

HEALTH PARTNERS OF SOUTHWEST IOWA
Schedule of Findings
Year Ended June 30, 2004

PART I - REPORTABLE CONDITIONS

04-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Organization.

Recommendation: We recognize that it may not be economically feasible for the Organization to contract for additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The members are aware of this lack of segregation of duties, but it is not economically feasible for the Organization to contract for additional personnel for this reason. The members will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - OTHER COMMENTS AND RECOMMENDATIONS

04-II-A Minutes: During the audit, we noted that no minutes had been kept during the year. We became aware of major decisions being made that should have been documented in minutes.

Recommendation: We recommend minutes be kept documenting all decisions made during the year.

Response: We will keep minutes in the future.

Conclusion: Response accepted.

* * *