

SHENANDOAH AMBULANCE SERVICE
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2004 AND 2003

SHENANDOAH AMBULANCE SERVICE

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SHENANDOAH AMBULANCE SERVICE
Members
December 31, 2004

Board Members

Location

| | |
|------------------------|------------------|
| Maury Reavis, Chairman | Shenandoah, Iowa |
| Gregg Connell | Shenandoah, Iowa |
| Bob Burchett | Shenandoah, Iowa |
| Dr. E.J. Teachout | Shenandoah, Iowa |
| Chuck Millburg | Shenandoah, Iowa |
| Dr. Floyd Jones | Shenandoah, Iowa |
| Kurt Henstorf | Shenandoah, Iowa |

Committee Members

| | |
|--------------|--------------------------------------------|
| Sandy Franks | CFO, Shenandoah Medical Center |
| John Baxter | EMS Director, Shenandoah Medical Center |
| Bob Norris | Attorney, Shenandoah |

Members

Shenandoah Medical Center
City of Shenandoah

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Shenandoah Ambulance Service

We have audited the accompanying balance sheets of Shenandoah Ambulance Service (a 28E Organization) as of December 31, 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Ambulance Service as of December 31, 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.

The Organization has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2005 on our consideration of Shenandoah Ambulance Service'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
February 2, 2005

SHENANDOAH AMBULANCE SERVICE
Balance Sheets
December 31,

ASSETS

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Current Assets: | | |
| Cash | \$ 14,398 | \$ 11,880 |
| Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$54,000 in 2004, \$49,000 in 2003) | 66,991 | 32,122 |
| Prepaid expenses | <u>1,767</u> | <u>1,844</u> |
| Total current assets | 83,156 | 45,846 |
| Assets Limited as to Use: | | |
| Board designated funds | 69,009 | 53,350 |
| Equipment | 28,517 | 28,517 |
| Less accumulated depreciation | <u>8,479</u> | <u>3,279</u> |
| | <u>20,038</u> | <u>25,238</u> |
| Total assets | <u>\$ 172,203</u> | <u>\$ 124,434</u> |

LIABILITIES AND MEMBERS' EQUITY

| | | |
|-------------------------------------------------|-------------------|-------------------|
| Current Liabilities: | | |
| Accounts payable | \$ 13,182 | \$ 21,851 |
| Due to member | <u>53,718</u> | <u>51,751</u> |
| Total liabilities | 66,900 | 73,602 |
| Members' Equity: | | |
| Invested in capital assets, net of related debt | 20,038 | 25,238 |
| Unrestricted | <u>85,265</u> | <u>25,594</u> |
| Total members' equity | <u>105,303</u> | <u>50,832</u> |
| Total liabilities and members' equity | <u>\$ 172,203</u> | <u>\$ 124,434</u> |

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
 Statements of Operations and Changes in Members' Equity
 Year ended December 31,

| | <u>2004</u> | <u>2003</u> |
|--------------------------------------------|-------------------|------------------|
| Revenues: | | |
| Ambulance service | \$ 509,685 | \$ 386,569 |
| Subsidy | 65,650 | 65,650 |
| Other | -- | 1,628 |
| | <u>575,335</u> | <u>453,847</u> |
| Contractual and administrative adjustments | <u>(136,676)</u> | <u>(87,088)</u> |
| Net revenues | 438,659 | 366,759 |
| Operating Expenses: | | |
| Contract labor | 302,498 | 291,359 |
| Laundry purchased services | 290 | 290 |
| Rent | 36,425 | 36,425 |
| Depreciation | 5,200 | 2,769 |
| Gas and oil | 7,783 | 6,728 |
| Education | 356 | 493 |
| Insurance | 11,016 | 10,248 |
| Advertising | 130 | -- |
| Bad debts | 24,582 | 19,326 |
| Legal and accounting | 18,488 | 18,416 |
| Collection fees | 519 | 307 |
| Licenses and fees | 289 | 250 |
| Repairs and maintenance | 7,844 | 5,980 |
| Supplies | 6,225 | 4,809 |
| Telephone | 896 | 1,657 |
| Travel | 26 | 24 |
| Medical director | <u>3,600</u> | <u>3,600</u> |
| Total operating expenses | <u>426,167</u> | <u>402,681</u> |
| Operating Income (Loss) | 12,492 | (35,922) |
| Non-Operating Income: | | |
| Investment income | 346 | 390 |
| Donations | <u>41,633</u> | <u>49,321</u> |
| Non-operating income | <u>41,979</u> | <u>49,711</u> |
| Excess of Revenues Over Expenses | 54,471 | 13,789 |
| Members' Equity, Beginning of Year | <u>50,832</u> | <u>37,043</u> |
| Members' Equity, End of Year | <u>\$ 105,303</u> | <u>\$ 50,832</u> |

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
 Statements of Cash Flows
 Year ended December 31,

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------------------------------------------------------------------|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Cash received from patients and third-party payors | \$ 379,208 | \$ 348,350 |
| Cash paid to suppliers | <u>(362,985)</u> | <u>(323,989)</u> |
| Net cash provided by operating activities | 16,223 | 24,361 |
| Cash flows from non-capital financing activities: | | |
| Donations | 1,608 | 9,296 |
| Cash flows from capital and related financing activities: | | |
| Capital expenditures | -- | (25,118) |
| Cash flows from investing activities: | | |
| Investment income | <u>346</u> | <u>390</u> |
| Net increase in cash | 18,177 | 8,929 |
| Cash, beginning of year | <u>65,230</u> | <u>56,301</u> |
| Cash, end of year | <u>\$ 83,407</u> | <u>\$ 65,230</u> |
| Reconciliation of cash to the balance sheet: | | |
| Cash in current assets | \$ 14,398 | \$ 11,880 |
| Cash in assets limited as to use | <u>69,009</u> | <u>53,350</u> |
| Total cash | <u>\$ 83,407</u> | <u>\$ 65,230</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating income (loss) | \$ 12,492 | \$(35,922) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | |
| Bad debts | 24,582 | 19,326 |
| Depreciation | 5,200 | 2,769 |
| Donated expenses | 40,025 | 40,025 |
| Changes in assets and liabilities | | |
| Accounts receivable | (59,451) | (18,409) |
| Prepaid expenses | 77 | (493) |
| Accounts payable | (8,669) | 16,709 |
| Due to member | <u>1,967</u> | <u>356</u> |
| Total adjustments | <u>3,731</u> | <u>60,283</u> |
| Net cash provided by operating activities | <u>\$ 16,223</u> | <u>\$ 24,361</u> |

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Shenandoah Ambulance Service was formed in 2001 pursuant to the provisions of Chapter 28E of the Code of Iowa. The Organization was formed to provide ambulance services to the Shenandoah service area.

The governing body of the Organization is composed of three representatives from each of the two participating entities and one representative from the Shenandoah service area. The participating entities are Shenandoah Medical Center and the City of Shenandoah. 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.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2004 and 2003

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

5. Assets Limited as to Use

Assets whose use is limited include assets set aside by the Board of Directors for capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

6. 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.

7. Cash and Cash Equivalents

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

8. Ambulance Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Ambulance services rendered to Medicare and Medicaid program beneficiaries are paid based on prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The Organization also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined daily rates.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2004 and 2003

NOTE C - DEPOSITS

The Organization's deposits at December 31, 2004 were entirely covered by federal depository insurance.

The composition of assets limited as to use at December 31 is set forth below.

| | 2004 | 2003 |
|---------------------------|-----------|-----------|
| Board Designated Funds: | | |
| For Capital Improvements: | | |
| Cash | \$ 69,009 | \$ 53,350 |

NOTE D - CAPITAL ASSETS

The Organization's capital assets, additions, disposals and balances for the years ended December 31, 2004 and 2003 were as follows:

| | Balance 2003 | Additions | Disposals | Balance 2004 |
|----------------|-----------------|------------|-----------|-----------------|
| Equipment Cost | \$ 28,517 | \$ -- | \$ -- | \$ 28,517 |
| Depreciation | 3,279 | 5,200 | -- | 8,479 |
| Equipment, Net | \$ 25,238 | \$(5,200) | \$ -- | \$ 20,038 |
| | Balance 2002 | Additions | Disposals | Balance 2003 |
| Equipment Cost | \$ 3,399 | \$ 25,118 | \$ -- | \$ 28,517 |
| Depreciation | 510 | 2,769 | -- | 3,279 |
| Equipment, Net | \$ 2,889 | \$ 22,349 | \$ -- | \$ 25,238 |

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2004 and 2003

NOTE E - RELATED ORGANIZATIONS

Shenandoah Ambulance Service is a joint venture of Shenandoah Medical Center (Hospital) and the City of Shenandoah (City). Under the terms of the agreement, the City will provide an annual subsidy, and ambulances and related equipment to the Organization. The Hospital will provide equipment, space and facilities necessary to house the ambulances, receive dispatch calls, and perform all administrative, recordkeeping and billing services required. The Organization has contracted with the Hospital to purchase personnel, employee benefits and supplies necessary to provide ambulance services. Below is a list of amounts due to or from Shenandoah Ambulance Service by the members at year end and the transactions between the Organization and Members during the year ended:

| <u>December 31, 2004</u> | <u>City</u> | <u>Hospital</u> |
|-----------------------------------------------------|-------------|-----------------|
| Due to Members | \$ -- | \$ 53,718 |
| Subsidy received from Members | 64,550 | -- |
| Services and supplies purchased through Hospital | -- | 324,219 |
| Value of donated services and equipment | 33,425 | 6,600 |
| <u>December 31, 2003</u> | | |
| Due to Members | \$ -- | \$ 51,751 |
| Subsidy received from Members | 64,550 | -- |
| Services and supplies purchased through Hospital | -- | 312,544 |
| Value of donated services and equipment | 33,425 | 6,600 |

NOTE F - CONTINGENCY

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. Shenandoah Ambulance Service 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 the entity's existence.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2004 and 2003

NOTE G - CONCENTRATION OF CREDIT RISK

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

| | 2004 | 2003 |
|--------------------------|------|------|
| Medicare | 38% | 45% |
| Medicaid | 8 | 12 |
| Blue Cross | 6 | 6 |
| Other third-party payors | 17 | 12 |
| Patients | 31 | 25 |
| | 100% | 100% |

NOTE H - ACCOUNTING CHANGE

During the year ended December 31, 2004, the Organization completed implementation of Government Accounting Standards Board Statements No. 34, 37, and 38. As a result, certain items on the balance sheets and statements of revenues, expenses, and changes in net assets for the year ended December 31, 2003 have been reclassified to be comparable to the amounts reported in the new 2004 format. The reclassifications had no effect on total net assets or the total change in net assets for 2003.

* * *

COMMENTS AND RECOMMENDATIONS

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors of
Shenandoah Ambulance Service

We have audited the financial statements of Shenandoah Ambulance Service as of and for the year ended December 31, 2004, and have issued our report thereon dated February 2, 2005. 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 Shenandoah Ambulance Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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 Shenandoah Ambulance Service'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 Shenandoah Ambulance Service'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 Board of Directors of
Shenandoah Ambulance Service

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 Shenandoah Ambulance Service 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.

Gronwald, Bell, Kuhn + Co. P.C.

Atlantic, Iowa
February 2, 2005

SHENANDOAH AMBULANCE SERVICE
Schedule of Findings
Year ended December 31, 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 employ or 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 employ or contract for additional personnel for this reason. The members will continue to act as an oversight group.

Conclusion: Response accepted.

* * *