

SHENANDOAH AMBULANCE SERVICE
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2005 AND 2004

SHENANDOAH AMBULANCE SERVICE

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SHENANDOAH AMBULANCE SERVICE
Members
December 31, 2005

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, Iowa

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, 2005 and 2004 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 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.

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, 2005 and 2004 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 3, 2006 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, 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Atlantic, Iowa
February 3, 2006

SHENANDOAH AMBULANCE SERVICE
Balance Sheets
December 31,

ASSETS

	2005	2004
Current Assets:		
Cash	\$ 28,489	\$ 14,398
Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$47,000 in 2005, \$54,000 in 2004)	55,266	66,991
Prepaid expenses	2,284	1,767
Total current assets	86,039	83,156
Assets Limited as to Use:		
Board designated funds	66,469	69,009
Equipment		
Less accumulated depreciation	15,776	8,479
	33,712	20,038
Total assets	\$ 186,220	\$ 172,203

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 3,718	\$ 13,182
Due to member	27,904	53,718
Total liabilities	31,622	66,900
Members' Equity:		
Invested in capital assets, net of related debt	33,712	20,038
Unrestricted	120,886	85,265
Total members' equity	154,598	105,303
Total liabilities and members' equity	\$ 186,220	\$ 172,203

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>2005</u>	<u>2004</u>
Revenues:		
Ambulance service	\$ 618,006	\$ 509,685
Subsidy	65,750	65,650
Other	439	--
	<u>684,195</u>	<u>575,335</u>
Contractual and administrative adjustments	(233,081)	(136,676)
Provision for bad debts	<u>(19,121)</u>	<u>(24,582)</u>
Net revenues	431,993	414,077
Operating Expenses:		
Contract labor	313,659	302,498
Laundry purchased services	400	290
Rent	36,425	36,425
Depreciation	7,297	5,200
Gas and oil	10,020	7,783
Education	2,075	356
Insurance	12,433	11,016
Advertising	56	130
Legal and accounting	18,587	18,488
Collection fees	923	519
Licenses and fees	350	289
Repairs and maintenance	11,671	7,844
Supplies	6,815	6,225
Telephone	818	896
Travel	--	26
Medical director	<u>3,600</u>	<u>3,600</u>
Total operating expenses	<u>425,129</u>	<u>401,585</u>
Operating Income	6,864	12,492
Non-Operating Income:		
Investment income	785	346
Donations	<u>41,646</u>	<u>41,633</u>
Non-operating income	<u>42,431</u>	<u>41,979</u>
Excess of Revenues Over Expenses	49,295	54,471
Members' Equity, Beginning of Year	<u>105,303</u>	<u>50,832</u>
Members' Equity, End of Year	<u>\$ 154,598</u>	<u>\$ 105,303</u>

The accompanying notes are an integral part of these statements.

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

	2005	2004
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 443,718	\$ 379,208
Cash paid to suppliers	(413,602)	(362,985)
Net cash provided by operating activities	30,116	16,223
Cash flows from non-capital financing activities:		
Donations	1,621	1,608
Cash flows from capital and related financing activities:		
Capital expenditures	(20,971)	--
Cash flows from investing activities:		
Investment income	785	346
Net increase in cash	11,551	18,177
Cash, beginning of year	83,407	65,230
Cash, end of year	\$ 94,958	\$ 83,407
Reconciliation of cash to the balance sheet:		
Cash in current assets	\$ 28,489	\$ 14,398
Cash in assets limited as to use	66,469	69,009
Total cash	\$ 94,958	\$ 83,407
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 6,864	\$ 12,492
Adjustments to reconcile operating income to net cash provided by operating activities		
Bad debts	19,121	24,582
Depreciation	7,297	5,200
Donated expenses	40,025	40,025
Changes in assets and liabilities		
Accounts receivable	(7,396)	(59,451)
Prepaid expenses	(517)	77
Accounts payable	(9,464)	(8,669)
Due to member	(25,814)	1,967
Total adjustments	23,252	3,731
Net cash provided by operating activities	\$ 30,116	\$ 16,223

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2005 and 2004

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, Iowa. Each participating entity owns an equal share in the organization.

2. Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Organization has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

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. 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.

5. Equipment

Equipment acquisitions with a cost in excess of \$500 and lives in excess of three years are recorded at cost. Depreciation is provided over the estimated useful life (ranging from three to ten years) of each class of depreciable asset and is computed on the straight-line method.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2005 and 2004

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

6. Cash and Cash Equivalents

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

7. Operating Revenues and Expenses

The Organization's statement of operations and changes in members' equity distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing ambulance services - the Organization's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expense are all expenses incurred to provide ambulance services, other than financing costs.

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.

9. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

10. Members' Equity

Members' equity of the Organization is classified in four components. *Members' equity invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable Members' equity* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Organization. *Restricted nonexpendable Members' equity* equal the principal portion of permanent endowments. *Unrestricted Members' Equity* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2005 and 2004

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.

NOTE C - DEPOSITS

The Organization's deposits at December 31, 2005 were entirely covered by federal depository insurance.

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

	2005	2004
Board Designated Funds:		
For Capital Improvements:		
Cash	\$ 66,469	\$ 69,009

NOTE D - CAPITAL ASSETS

The Organization's capital assets, additions, disposals and balances for the years ended December 31, 2005 and 2004 were as follows:

	Balance 2004	Additions	Disposals	Balance 2005
Equipment Cost	\$ 28,517	\$ 20,971	\$ --	\$ 49,488
Depreciation	8,479	7,297	--	15,776
Equipment, Net	\$ 20,038	\$ 13,674	\$ --	\$ 33,712

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2005 and 2004

NOTE D - CAPITAL ASSETS - Continued

	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
Equipment Cost	\$ 28,517	\$ --	\$ --	\$ 28,517
Depreciation	<u>3,279</u>	<u>5,200</u>	<u>--</u>	<u>8,479</u>
Equipment, Net	<u>\$ 25,238</u>	<u>\$(5,200)</u>	<u>\$ --</u>	<u>\$ 20,038</u>

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, 2005</u>	<u>City</u>	<u>Hospital</u>
Due to Member	\$ --	\$ 27,904
Subsidy received from Members	64,550	--
Services and supplies purchased through Hospital	--	334,184
Value of donated services and equipment	33,425	6,600
 <u>December 31, 2004</u>		
Due to Member	\$ --	\$ 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

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2005 and 2004

NOTE F - COMMITMENTS AND CONTINGENCIES

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.

Equipment Purchase

As of December 31, 2005, the Organization has committed to the purchase of an ambulance and related equipment at an estimated cost of \$120,000. The ambulance will be financed through the use of \$50,000 of internally generated funds and \$70,000 of debt.

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:

	<u>2005</u>	<u>2004</u>
Medicare	30%	38%
Medicaid	22	8
Blue Cross	12	6
Other third-party payors	15	17
Patients	<u>21</u>	<u>31</u>
	<u>100%</u>	<u>100%</u>

* * *

COMMENTS AND RECOMMENDATIONS

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

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors
Shenandoah Ambulance Service
Shenandoah, Iowa

We have audited the accompanying financial statements of Shenandoah Ambulance Service as of and for the year ended December 31, 2005, and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 an opinion 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.

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 caused by error or fraud 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 05-I-A is a material weakness.

To the Board of Directors
Shenandoah Ambulance Service

Compliance and Other Matters

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, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Shenandoah Ambulance Service's and other parties to whom the Organization may report, including federal awarding agencies and pass-through entities. 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 3, 2006

SHENANDOAH AMBULANCE SERVICE
Schedule of Findings
Year ended December 31, 2005

PART I - REPORTABLE CONDITIONS

05-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.

* * *