

HEALTH PARTNERS OF SOUTHWEST IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2006 AND 2005

HEALTH PARTNERS OF SOUTHWEST IOWA
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HEALTH PARTNERS OF SOUTHWEST IOWA
Members
June 30, 2006

<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
Myrtue Medical Center	Harlan, Iowa	Mark Woodring

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

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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, 2006 and 2005 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 Health Partners of Southwest Iowa as of June 30, 2006 and 2005 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 August 31, 2006 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, 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
August 31, 2006

HEALTH PARTNERS OF SOUTHWEST IOWA
Balance Sheets
June 30,

ASSETS

	2006	2005
Current Assets:		
Cash	\$ 542,001	\$ 425,052
Accounts receivable - members	23,410	31,402
- other hospitals	12,805	25,596
Prepaid expenses	875	756
Total current assets	579,091	482,806
Equipment		
Less accumulated depreciation	668,233	665,493
	412,872	291,835
	255,361	373,658
Total assets	\$ 834,452	\$ 856,464

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 8,178	\$ 11,473
Due to members	41,249	43,296
Total liabilities	49,427	54,769
Members' Equity:		
Invested in capital assets, net of related debt	255,361	373,658
Unrestricted	529,664	428,037
Total members' equity	785,025	801,695
Total liabilities and members' equity	\$ 834,452	\$ 856,464

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,

	2006	2005
Revenues:		
Spect Imaging revenue	\$ 270,234	\$ 309,510
Sleep Study revenue	130,500	138,400
Other services revenue	113,727	129,033
	514,461	576,943
Operating Expenses:		
Contract labor	246,387	239,315
Cost of nuclide	61,554	64,429
Credential expense	3,816	4,539
Depreciation	121,037	120,639
Dues and subscriptions	578	150
Education	2,150	1,449
Insurance	1,200	1,200
Licenses	600	--
Member services	26,876	21,404
Miscellaneous expense	2,109	3,092
Legal and accounting	12,727	12,828
Postage	7,454	11,192
Repairs and maintenance	43,117	10,925
Supplies	13,461	9,961
Telephone	251	452
Travel	7,534	7,866
Truck operation	6,559	5,595
Total operating expenses	557,410	515,036
Operating Income (Loss)	(42,949)	61,907
Non-Operating Income:		
Investment income	26,279	9,646
Gain on disposal of assets	--	4,200
Total non-operating income	26,279	13,846
Excess (Deficiency) of Revenues Over Expenses	(16,670)	75,753
Members' Equity, Beginning of Year	801,695	725,942
Members' Equity, End of Year	\$ 785,025	\$ 801,695

The accompanying notes are an integral part of these statements.

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

	2006	2005
Cash flows from operating activities:		
Cash received from clients and members	\$ 414,379	\$ 432,910
Cash paid to suppliers	(320,969)	(257,464)
Net cash provided by operating activities	93,410	175,446
Cash flows from capital and related financing activities:		
Capital expenditures	(2,740)	(24,229)
Gain on disposal of asset	--	4,200
Net cash used in capital and related financing activities	(2,740)	(20,029)
Cash flows from investing activities:		
Investment income	26,279	9,646
Net increase in cash	116,949	165,063
Cash, beginning of year	425,052	259,989
Cash, end of year	\$ 542,001	\$ 425,052
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(42,949)	\$ 61,907
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	121,037	120,639
Changes in assets and liabilities		
Accounts receivable	20,783	(730)
Prepaid expenses	(119)	1,786
Accounts payable	(3,295)	(28)
Due to members	(2,047)	(8,128)
Total adjustments	136,359	113,539
Net cash provided by operating activities	\$ 93,410	\$ 175,446

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2006 and 2005

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 Myrtue Medical Center. 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, 2006 and 2005

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

5. Equipment

Equipment acquisitions with a cost in excess of \$1,000 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.

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, 2006 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, 2006 and 2005 were as follows:

	<u>Balance 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2006</u>
Equipment Cost	\$ 665,493	\$ 2,740	\$ --	\$ 668,233
Depreciation	<u>291,835</u>	<u>121,037</u>	<u>--</u>	<u>412,872</u>
Equipment, Net	<u>\$ 373,658</u>	<u>\$(118,297)</u>	<u>\$ --</u>	<u>\$ 255,361</u>
	<u>Balance 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2005</u>
Equipment Cost	\$ 641,264	\$ 24,229	\$ --	\$ 665,493
Depreciation	<u>171,196</u>	<u>120,639</u>	<u>--</u>	<u>291,835</u>
Equipment, Net	<u>\$ 470,068</u>	<u>\$(96,410)</u>	<u>\$ --</u>	<u>\$ 373,658</u>

HEALTH PARTNERS OF SOUTHWEST IOWA
Notes to Financial Statements
June 30, 2006 and 2005

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 Myrtue Medical Center (MMC). 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>MMC</u>
<u>June 30, 2006</u>			
Due from hospitals	\$ --	\$ 19,943	\$ 3,467
Due (to) hospitals	(38,192)	--	(3,057)
Services rendered to hospitals	127,186	101,453	103,944
Services and supplies purchased through hospitals	222,898	26,028	49,307
<u>June 30, 2005</u>			
Due from hospitals	--	19,350	12,052
Due (to) hospitals	(36,159)	--	(7,137)
Services rendered to hospitals	143,303	119,589	103,480
Services and supplies purchased through hospitals	181,051	32,591	54,548

NOTE D - CONTINGENCIES

Economic Dependency

The Organization currently derives the majority of its operating revenue from providing mobile Spect Imaging services and Sleep Study services. Approximately 65% of its revenue is through transactions with member hospitals. The Organization also purchases most of its contract labor and supplies (approximately 54% 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, 2006 and 2005

NOTE D - CONTINGENCIES - Continued

Sleep Study Service Discontinued

The members decided to discontinue providing sleep study services beginning in May, 2006. The result will be a reduction of approximately \$130,500 (25%) of the revenues and \$112,600 (20%) of direct expenses. The Organization is in the process of trying to sell the related equipment which had a net book value of approximately \$15,300 at year end.

* * *

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 Members of
Health Partners of Southwest Iowa
Atlantic, Iowa

We have audited the financial statements of Health Partners of Southwest Iowa as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 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 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.

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 06-I-A is a material weakness.

To the Members of
Health Partners of Southwest Iowa

Compliance and Other Matters

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 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. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Organization's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Organization. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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, Kyhmn + Co. P.C.

Atlantic, Iowa
August 31, 2006

HEALTH PARTNERS OF SOUTHWEST IOWA
Schedule of Findings
Year Ended June 30, 2006

PART I - REPORTABLE CONDITIONS

06-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

06-II-A Minutes: During the audit, we noted that meeting minutes had been kept for only one meeting during the year. We became aware of several major decisions being made that should have been documented in minutes, but were not.

Recommendation: We recommend minutes be kept for each meeting, documenting all decisions made during the year.

Response: We will keep minutes for all meetings in the future.

Conclusion: Response accepted.

* * *