

SHENANDOAH AMBULANCE SERVICE
NEWS RELEASE

Contact: Sandy Franks

FOR RELEASE IMMEDIATELY

Gronewold, Bell, Kyhnn & Co. P.C. has released an audit report on Shenandoah Ambulance Service, a 28E Organization (Shenandoah Medical Center and City of Shenandoah, Iowa).

The Organization had net revenues of \$549,113 for the year ended December 31, 2006, which was a 15.7% increase from the prior year. Revenues included \$439,245 from services provided, \$109,087 from subsidy and donations, and \$781 from other sources.

Expenditures for the Organization totaled \$482,864, a 13.6% increase from the prior year.

A copy of the audit report will be available for review in the office of the Auditor of State and in the Organization's office.

* * *

28E

SHENANDOAH AMBULANCE SERVICE
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2006 AND 2005

SHENANDOAH AMBULANCE SERVICE

CONTENTS

	<u>Page</u>
MEMBERS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS:	
Balance Sheets	3
Statements of Operations and Changes in Members' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	7
COMMENTS AND RECOMMENDATIONS:	
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	13
Schedule of Findings	15

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

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

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, 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 Shenandoah Ambulance Service as of December 31, 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 March 20, 2007 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
March 20, 2007

SHENANDOAH AMBULANCE SERVICE
Balance Sheets
December 31,

ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash	\$ 66,182	\$ 28,489
Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$65,000 in 2006, \$47,000 in 2005)	64,813	55,266
Prepaid expenses	<u>2,689</u>	<u>2,284</u>
Total current assets	133,684	86,039
Assets Limited as to Use:		
Board designated funds	25,098	66,469
Equipment	172,522	49,488
Less accumulated depreciation	<u>39,859</u>	<u>15,776</u>
	<u>132,663</u>	<u>33,712</u>
Total assets	<u>\$ 291,445</u>	<u>\$ 186,220</u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Current maturities of long-term debt	\$ 12,925	\$ --
Accounts payable	4,579	3,718
Accrued interest	121	--
Due to member	<u>29,077</u>	<u>27,904</u>
Total current liabilities	46,702	31,622
Long-Term Debt, less current maturities	<u>23,896</u>	<u>--</u>
Total liabilities	70,598	31,622
Members' Equity:		
Invested in capital assets, net of related debt	95,842	33,712
Unrestricted	<u>125,005</u>	<u>120,886</u>
Total members' equity	<u>220,847</u>	<u>154,598</u>
Total liabilities and members' equity	<u>\$ 291,445</u>	<u>\$ 186,220</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>2006</u>	<u>2005</u>
Revenues:		
Ambulance service	\$ 739,164	\$ 618,006
Subsidies	65,850	65,750
Other	12	439
	<u>805,026</u>	<u>684,195</u>
Contractual and administrative adjustments	(265,929)	(233,081)
Provision for bad debts	<u>(33,990)</u>	<u>(19,121)</u>
Net revenues	505,107	431,993
Operating Expenses:		
Contract labor	342,352	313,659
Laundry purchased services	290	400
Rent	36,425	36,425
Depreciation	24,083	7,297
Gas and oil	13,944	10,020
Education	262	2,075
Insurance	12,663	12,433
Advertising	393	56
Legal and accounting	17,500	18,587
Collection fees	1,891	923
Licenses and fees	565	350
Repairs and maintenance	12,828	11,671
Supplies	14,623	6,815
Telephone	942	818
Travel	20	--
Medical director	<u>3,600</u>	<u>3,600</u>
Total operating expenses	<u>482,381</u>	<u>425,129</u>
Operating Income	22,726	6,864
Non-Operating Income (Expense):		
Investment income	769	785
Interest expense	(483)	--
Donations	<u>43,237</u>	<u>41,646</u>
Non-operating income, net	<u>43,523</u>	<u>42,431</u>
Excess of Revenues Over Expenses	66,249	49,295
Members' Equity, Beginning of Year	<u>154,598</u>	<u>105,303</u>
Members' Equity, End of Year	<u>\$ 220,847</u>	<u>\$ 154,598</u>

The accompanying notes are an integral part of these statements.

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

	2006	2005
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 495,560	\$ 443,718
Cash paid to suppliers	(416,644)	(413,602)
Net cash provided by operating activities	78,916	30,116
Cash flows from non-capital financing activities:		
Donations	3,212	1,621
Cash flows from capital and related financing activities:		
Capital expenditures	(123,034)	(20,971)
Proceeds from long-term debt	40,000	--
Principal payments on long-term debt	(3,179)	--
Interest paid	(362)	--
Net cash used in capital and related financing activities	(86,575)	(20,971)
Cash flows from investing activities:		
Investment income	769	785
Net increase (decrease) in cash	(3,678)	11,551
Cash, beginning of year	94,958	83,407
Cash, end of year	\$ 91,280	\$ 94,958
Reconciliation of cash to the balance sheet:		
Cash in current assets	\$ 66,182	\$ 28,489
Cash in assets limited as to use	25,098	66,469
Total cash	\$ 91,280	\$ 94,958

(continued next page)

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

	2006	2005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 22,726	\$ 6,864
Adjustments to reconcile operating income to net cash provided by operating activities		
Bad debts	33,990	19,121
Depreciation	24,083	7,297
Donated expenses	40,025	40,025
Changes in assets and liabilities		
Accounts receivable	(43,537)	(7,396)
Prepaid expenses	(405)	(517)
Accounts payable	861	(9,464)
Due to member	1,173	(25,814)
Total adjustments	56,190	23,252
Net cash provided by operating activities	\$ 78,916	\$ 30,116

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2006 and 2005

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, 2006 and 2005

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, 2006 and 2005

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, 2006 were entirely covered by federal depository insurance.

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

	2006	2005
Board Designated Funds:		
For Capital Improvements:		
Cash	\$ 25,098	\$ 66,469

NOTE D - CAPITAL ASSETS

The Organization's capital assets, additions, disposals and balances for the years ended December 31, 2006 and 2005 were as follows:

	Balance 2005	Additions	Disposals	Balance 2006
Equipment Cost	\$ 49,488	\$ 123,034	\$ --	\$ 172,522
Depreciation	15,776	24,083	--	39,859
Equipment, Net	\$ 33,712	\$ 98,951	\$ --	\$ 132,663

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2006 and 2005

NOTE D - CAPITAL ASSETS - Continued

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

NOTE E - LONG-TERM DEBT

A schedule of changes in non-current liabilities for the year ended December 31, 2006 follows:

	<u>Balance 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2006</u>
Note Payable	<u>\$ --</u>	<u>\$ 40,000</u>	<u>\$ 3,179</u>	<u>\$ 36,821</u>

The Organization entered into a promissory note with a local bank for the purchase of an ambulance. The note is payable in thirty-six monthly payments of \$1,180, including interest at 4%, and matures September, 2009. The note is collateralized by the ambulance.

Principal and interest payments required on the note payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 12,925	\$ 1,237	\$ 14,162
2008	13,449	713	14,162
2009	<u>10,447</u>	<u>175</u>	<u>10,622</u>
	<u>\$ 36,821</u>	<u>\$ 2,125</u>	<u>\$ 38,946</u>

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2006 and 2005

NOTE F - 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, 2006</u>	<u>City</u>	<u>Hospital</u>
Due to Member	\$ --	\$ 29,077
Subsidy received from Members	64,550	--
Services and supplies purchased through Hospital	--	365,098
Value of donated services and equipment	33,425	6,600
 <u>December 31, 2005</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

NOTE G - 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, 2006 and 2005

NOTE H - 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:

	2006	2005
Medicare	24%	30%
Medicaid	12	22
Blue Cross	7	12
Other third-party payors	25	15
Patients	32	21
	100%	100%

* * *

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
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

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

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, 2006, and have issued our report thereon dated March 20, 2007. 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 06-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.

Granowald, Bell, Kyhan & Co. P.C.

Atlantic, Iowa
March 20, 2007

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

* * *