

SHENANDOAH AMBULANCE SERVICE
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2007 AND 2006

SHENANDOAH AMBULANCE SERVICE

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SHENANDOAH AMBULANCE SERVICE
Members
December 31, 2007

<u>Board Members</u>	<u>Location</u>
Maury Reavis, Chairman	Shenandoah, Iowa
Dick Hunt	Shenandoah, Iowa
Bob Burchett	Shenandoah, Iowa
Dr. E.J. Teachout	Shenandoah, Iowa
Chuck Millburg (resigned August, 2007)	Shenandoah, Iowa
Susan McGough (effective September, 2007)	Shenandoah, Iowa
Dr. Floyd Jones	Shenandoah, Iowa
Kurt Henstorf	Shenandoah, Iowa

Committee Members

Sandy Chesshire	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.

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, 2007 and 2006 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, 2007 and 2006 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 or a Budgetary Comparison 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 22, 2008 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 22, 2008

SHENANDOAH AMBULANCE SERVICE
Balance Sheets
December 31,

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash	\$ 52,288	\$ 66,182
Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$84,000 in 2007, \$65,000 in 2006)	102,085	64,813
Prepaid expenses	<u>2,837</u>	<u>2,689</u>
Total current assets	157,210	133,684
Assets Limited as to Use:		
Board designated funds	75,384	25,098
Equipment	172,522	172,522
Less accumulated depreciation	<u>78,630</u>	<u>39,859</u>
	<u>93,892</u>	<u>132,663</u>
Total assets	<u>\$ 326,486</u>	<u>\$ 291,445</u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Current maturities of long-term debt	\$ --	\$ 12,925
Accounts payable	5,009	4,579
Accrued interest	--	121
Due to member	<u>35,615</u>	<u>29,077</u>
Total current liabilities	40,624	46,702
Long-Term Debt, less current maturities	<u>--</u>	<u>23,896</u>
Total liabilities	40,624	70,598
Members' Equity:		
Invested in capital assets, net of related debt	93,892	95,842
Unrestricted	<u>191,970</u>	<u>125,005</u>
Total members' equity	<u>285,862</u>	<u>220,847</u>
Total liabilities and members' equity	<u>\$ 326,486</u>	<u>\$ 291,445</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,

	2007	2006
Revenues:		
Ambulance service	\$ 928,423	\$ 739,164
Subsidies	65,950	65,850
Other	614	12
	994,987	805,026
Contractual and administrative adjustments	(380,281)	(262,090)
Charity care	(5,792)	(3,839)
Provision for bad debts	(39,439)	(33,990)
Net revenues	569,475	505,107
Operating Expenses:		
Contract labor	392,758	342,352
Laundry purchased services	290	290
Rent	36,425	36,425
Depreciation	38,771	24,083
Gas and oil	15,911	13,944
Education and travel	2,674	282
Insurance	12,413	12,663
Advertising	1,644	393
Legal and accounting	19,944	17,500
Collection fees	1,853	1,891
Licenses and fees	551	565
Repairs and maintenance	8,967	12,828
Supplies	9,399	14,623
Telephone	1,050	942
Medical director	3,600	3,600
Total operating expenses	546,250	482,381
Operating Income	23,225	22,726
Non-Operating Income (Expense):		
Investment income	959	769
Interest expense	(1,107)	(483)
Donations	41,938	43,237
Non-operating income, net	41,790	43,523
Excess of Revenues Over Expenses	65,015	66,249
Members' Equity, Beginning of Year	220,847	154,598
Members' Equity, End of Year	\$ 285,862	\$ 220,847

The accompanying notes are an integral part of these statements.

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

	2007	2006
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 532,203	\$ 495,560
Cash paid to suppliers	(460,634)	(416,644)
Net cash provided by operating activities	71,569	78,916
Cash flows from non-capital financing activities:		
Donations	1,913	3,212
Cash flows from capital and related financing activities:		
Capital expenditures	--	(123,034)
Proceeds from long-term debt	--	40,000
Principal payments on long-term debt	(36,821)	(3,179)
Interest paid	(1,228)	(362)
Net cash used in capital and related financing activities	(38,049)	(86,575)
Cash flows from investing activities:		
Investment income	959	769
Net increase (decrease) in cash	36,392	(3,678)
Cash, beginning of year	91,280	94,958
Cash, end of year	\$ 127,672	\$ 91,280
Reconciliation of cash to the balance sheet:		
Cash in current assets	\$ 52,288	\$ 66,182
Cash in assets limited as to use	75,384	25,098
Total cash	\$ 127,672	\$ 91,280

(continued next page)

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

	2007	2006
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 23,225	\$ 22,726
Adjustments to reconcile operating income to net cash provided by operating activities		
Bad debts	39,439	33,990
Depreciation	38,771	24,083
Donated expenses	40,025	40,025
Changes in assets and liabilities		
Accounts receivable	(76,711)	(43,537)
Prepaid expenses	(148)	(405)
Accounts payable	430	861
Due to member	6,538	1,173
Total adjustments	48,344	56,190
Net cash provided by operating activities	\$ 71,569	\$ 78,916

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2007 and 2006

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 estimated useful life 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, 2007 and 2006

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 three 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 Members' equity* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Organization. *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, 2007 and 2006

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, 2007 were entirely covered by federal depository insurance.

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

	2007	2006
Board Designated Funds:		
For Capital Improvements:		
Cash	\$ 75,384	\$ 25,098

NOTE D - CAPITAL ASSETS

The Organization's capital assets, additions, disposals and balances for the years ended December 31, 2007 and 2006 were as follows:

	Balance 2006	Additions	Disposals	Balance 2007
Equipment Cost	\$ 172,522	\$ --	\$ --	\$ 172,522
Depreciation	39,859	38,771	--	78,630
Equipment, Net	\$ 132,663	\$(38,771)	\$ --	\$ 93,892

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2007 and 2006

NOTE D - CAPITAL ASSETS - Continued

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

NOTE E - LONG-TERM DEBT

A schedule of changes in non-current liabilities for the years ended December 31, 2007 and 2006 follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2007</u>
Note Payable	<u>\$ 36,821</u>	<u>\$ --</u>	<u>\$ 36,821</u>	<u>\$ --</u>
	<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 was payable in thirty-six monthly payments of \$1,180, including interest at 4%, and was to mature September, 2009. The note was collateralized by the ambulance. The note was paid in full during 2007.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2007 and 2006

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, 2007</u>	City	Hospital
Due to Member	\$ --	\$ 35,615
Subsidy received from Member	64,550	--
Services and supplies purchased through Hospital	--	414,724
Value of donated services and equipment	33,425	6,600
 <u>December 31, 2006</u>		
Due to Member	\$ --	\$ 29,077
Subsidy received from Member	64,550	--
Services and supplies purchased through Hospital	--	365,098
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, 2007 and 2006

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:

	<u>2007</u>	<u>2006</u>
Medicare	38%	24%
Medicaid	10	12
Blue Cross	11	7
Other third-party payors	19	25
Patients	<u>22</u>	<u>32</u>
	<u>100%</u>	<u>100%</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
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

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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 financial statements of Shenandoah Ambulance Service as of and for the year ended December 31, 2007, and have issued our report thereon dated February 22, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Shenandoah Ambulance Service's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Organization's financial statements, that is more than inconsequential, will not be prevented or detected by the Organization's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Directors
Shenandoah Ambulance Service

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

Shenandoah Ambulance Service's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Organization's response, we did not audit the Organization's response and, accordingly, we express no opinion on it.

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 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.

Glennwald, Ben, Kyhan & W.P.C.

Atlantic, Iowa
February 22, 2008

SHENANDOAH AMBULANCE SERVICE
Schedule of Findings
Year ended December 31, 2007

PART I - SIGNIFICANT DEFICIENCIES

07-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.

* * *