

HEALTH PARTNERS OF SOUTHWEST IOWA

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS  
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2008 AND 2007

HEALTH PARTNERS OF SOUTHWEST IOWA

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	6
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	9
Schedule of Findings	11

HEALTH PARTNERS OF SOUTHWEST IOWA  
Members  
June 30, 2008

<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, 2008 and 2007 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, 2008 and 2007 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 October 13, 2008 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  
October 13, 2008

HEALTH PARTNERS OF SOUTHWEST IOWA  
Balance Sheets  
June 30,

ASSETS

	2008	2007
Current Assets:		
Cash	\$ 548,800	\$ 386,244
Certificate of deposit	272,435	259,451
Accounts receivable - members	22,924	20,198
- other hospitals	12,930	19,162
Prepaid expenses	875	875
Total current assets	857,964	685,930
Depreciable Capital Assets	476,091	476,091
Less accumulated depreciation	436,157	343,850
	39,934	132,241
Other Assets	3,427	3,427
Total assets	\$ 901,325	\$ 821,598

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 9,824	\$ 7,307
Due to members	74,196	30,653
Total liabilities	84,020	37,960
Members' Equity:		
Invested in capital assets, net of related debt	39,934	132,241
Unrestricted	777,371	651,397
Total members' equity	817,305	783,638
Total liabilities and members' equity	\$ 901,325	\$ 821,598

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,

	<u>2008</u>	<u>2007</u>
Revenues:		
Spect Imaging revenue	\$ 316,946	\$ 286,130
Other services revenue	<u>121,556</u>	<u>125,469</u>
	438,502	411,599
Operating Expenses:		
Contract labor	156,067	143,732
Cost of nuclide	61,280	64,683
Credential expense	4,280	4,845
Depreciation	92,307	92,854
Dues and subscriptions	200	731
Education	13,778	1,181
Insurance	1,200	1,200
Licenses	2,700	2,653
Member services	26,587	21,415
Miscellaneous expense	13	484
Legal and accounting	12,821	12,976
Postage	2,372	4,992
Repairs and maintenance	44,411	43,681
Supplies	8,591	9,931
Telephone	256	131
Travel	225	183
Truck operation	<u>8,497</u>	<u>7,292</u>
Total operating expenses	<u>435,585</u>	<u>412,964</u>
Operating Income (Loss)	2,917	( 1,365)
Non-Operating Income (Loss):		
Investment income	30,750	30,244
Loss on disposal of assets	<u>--</u>	<u>( 30,266)</u>
Non-operating income (loss), net	<u>30,750</u>	<u>( 22)</u>
Excess (Deficiency) of Revenues Over Expenses	33,667	( 1,387)
Members' Equity, Beginning of Year	<u>783,638</u>	<u>785,025</u>
Members' Equity, End of Year	<u>\$ 817,305</u>	<u>\$ 783,638</u>

The accompanying notes are an integral part of these statements.

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

	2008	2007
Cash flows from operating activities:		
Cash received from clients and members	\$ 334,022	\$ 325,998
Cash paid to suppliers	( 189,232)	( 249,121)
Net cash provided by operating activities	144,790	76,877
Cash flows from investing activities:		
Investment income	30,750	30,244
Other assets acquired	--	( 3,427)
Purchase of certificate of deposit	( 12,984)	( 259,451)
Net cash provided by (used in) investing activities	17,766	( 232,634)
Net increase (decrease) in cash	162,556	( 155,757)
Cash, beginning of year	386,244	542,001
Cash, end of year	\$ 548,800	\$ 386,244
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 2,917	\$( 1,365)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	92,307	92,854
Changes in assets and liabilities		
Accounts receivable	3,506	( 3,145)
Accounts payable	2,517	( 871)
Due to members	43,543	( 10,596)
Total adjustments	141,873	78,242
Net cash provided by operating activities	\$ 144,790	\$ 76,877

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA  
Notes to Financial Statements  
June 30, 2008 and 2007

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, 2008 and 2007

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, 2008 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, and any certificates of deposit.

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, 2008 and 2007 were as follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
Equipment Cost	\$ 476,091	\$ --	\$ --	\$ 476,091
Depreciation	<u>343,850</u>	<u>92,307</u>	<u>--</u>	<u>436,157</u>
Equipment, Net	<u>\$ 132,241</u>	<u>\$( 92,307)</u>	<u>\$ --</u>	<u>\$ 39,934</u>
	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2007</u>
Equipment Cost	\$ 668,233	\$ --	\$ 192,142	\$ 476,091
Depreciation	<u>412,872</u>	<u>92,854</u>	<u>161,876</u>	<u>343,850</u>
Equipment, Net	<u>\$ 255,361</u>	<u>\$( 92,854)</u>	<u>\$ 30,266</u>	<u>\$ 132,241</u>

HEALTH PARTNERS OF SOUTHWEST IOWA  
Notes to Financial Statements  
June 30, 2008 and 2007

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, 2008</u>			
Due from hospitals	\$ --	\$ 20,662	\$ 2,262
Due (to) hospitals	( 70,800)	--	( 3,396)
Services rendered to hospitals	116,420	95,896	79,855
Services and supplies purchased through hospitals	150,921	25,660	45,078
<u>June 30, 2007</u>			
Due from hospitals	--	17,958	2,240
Due (to) hospitals	( 27,865)	--	( 2,788)
Services rendered to hospitals	88,572	102,695	70,527
Services and supplies purchased through hospitals	143,146	26,135	44,939

NOTE D - CONTINGENCIES

Economic Dependency

The Organization currently derives the majority of its operating revenue from providing mobile Spect Imaging services. Approximately 67% (64% in 2007) of its revenue is through transactions with member hospitals. The Organization also purchases most of its contract labor and supplies (approximately 51% (52% in 2007) 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.

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## 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, 2008, and have issued our report thereon dated October 13, 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 Health Partners of Southwest Iowa'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 Health Partners of Southwest Iowa'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 Members of  
Health Partners of Southwest Iowa

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 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.

Health Partners of Southwest Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Organization's responses, we did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Health Partners of Southwest Iowa 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.

*Gronewald, Bell, Kyburz + Co. P.C.*  
Atlantic, Iowa  
October 13, 2008

HEALTH PARTNERS OF SOUTHWEST IOWA  
Schedule of Findings  
Year Ended June 30, 2008

PART I - REPORTABLE CONDITIONS

08-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. However, this situation is common in small organizations.

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

08-II-A Minutes: During the audit, we noted that no meeting minutes had been kept during the year. We became aware of several 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.

\* \* \*