

SHENANDOAH AMBULANCE SERVICE
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2008 AND 2007

SHENANDOAH AMBULANCE SERVICE

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SHENANDOAH AMBULANCE SERVICE
Members
December 31, 2008

Board Members

Location

Kurt Henstorf, Chairman	Shenandoah, Iowa
Dick Hunt	Shenandoah, Iowa
Bob Burchett	Shenandoah, Iowa
Jim Davey	Shenandoah, Iowa
Craig Harris	Shenandoah, Iowa
Susan McGough	Shenandoah, Iowa
Dr. Floyd Jones	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.

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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, 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 Shenandoah Ambulance Service as of December 31, 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 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 April 16, 2009 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
April 16, 2009

SHENANDOAH AMBULANCE SERVICE
Balance Sheets
December 31,

ASSETS

	2008	2007
Current Assets:		
Cash	\$ 107,772	\$ 52,288
Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$78,000 in 2008, \$84,000 in 2007)	70,257	102,085
Prepaid expenses	3,230	2,837
Total current assets	181,259	157,210
Assets Limited as to Use:		
Board designated funds	111,242	75,384
Equipment		
Less accumulated depreciation	116,708	172,522
	69,313	93,892
Total assets	\$ 361,814	\$ 326,486

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 4,583	\$ 5,009
Due to member	37,673	35,615
Total current liabilities	42,256	40,624
Members' Equity:		
Invested in capital assets, net of related debt	69,313	93,892
Unrestricted	250,245	191,970
Total members' equity	319,558	285,862
Total liabilities and members' equity	\$ 361,814	\$ 326,486

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,

	2008	2007
Revenues:		
Ambulance service	\$ 957,927	\$ 928,423
Subsidies	66,450	65,950
Other	2,522	614
	1,026,899	994,987
Contractual and administrative adjustments	(417,688)	(380,281)
Charity care	(10,931)	(5,792)
Provision for bad debts	(37,585)	(39,439)
Net revenues	560,695	569,475
Operating Expenses:		
Contract labor	416,681	392,758
Laundry purchased services	455	290
Rent	36,425	36,425
Depreciation	38,078	38,771
Gas and oil	19,679	15,911
Education and travel	399	2,674
Insurance	14,082	12,413
Advertising	793	1,644
Legal and accounting	19,615	19,944
Collection fees	1,035	1,853
Licenses and fees	426	551
Repairs and maintenance	8,680	8,967
Supplies	8,225	9,399
Telephone	791	1,050
Medical director	3,600	3,600
Total operating expenses	568,964	546,250
Operating Income (Loss)	(8,269)	23,225
Non-Operating Income (Expense):		
Investment income	1,275	959
Interest expense	--	(1,107)
Donations	40,690	41,938
Non-operating income, net	41,965	41,790
Excess of Revenues Over Expenses	33,696	65,015
Members' Equity, Beginning of Year	285,862	220,847
Members' Equity, End of Year	\$ 319,558	\$ 285,862

The accompanying notes are an integral part of these statements.

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

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 592,523	\$ 532,203
Cash paid to suppliers	<u>(489,622)</u>	<u>(460,634)</u>
Net cash provided by operating activities	102,901	71,569
Cash flows from non-capital financing activities:		
Donations	665	1,913
Cash flows from capital and related financing activities:		
Capital expenditures	(13,499)	--
Principal payments on long-term debt	--	(36,821)
Interest paid	<u>--</u>	<u>(1,228)</u>
Net cash used in capital and related financing activities	(13,499)	(38,049)
Cash flows from investing activities:		
Investment income	<u>1,275</u>	<u>959</u>
Net increase in cash	91,342	36,392
Cash, beginning of year	<u>127,672</u>	<u>91,280</u>
Cash, end of year	<u>\$ 219,014</u>	<u>\$ 127,672</u>
Reconciliation of cash to the balance sheet:		
Cash in current assets	\$ 107,772	\$ 52,288
Cash in assets limited as to use	<u>111,242</u>	<u>75,384</u>
Total cash	<u>\$ 219,014</u>	<u>\$ 127,672</u>

(continued next page)

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

	2008	2007
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(8,269)	\$ 23,225
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	38,078	38,771
Donated expenses	40,025	40,025
Changes in assets and liabilities		
Accounts receivable	31,828	(37,272)
Prepaid expenses	(393)	(148)
Accounts payable	(426)	430
Due to member	2,058	6,538
Total adjustments	111,170	48,344
Net cash provided by operating activities	\$ 102,901	\$ 71,569

The accompanying notes are an integral part of these statements.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2008 and 2007

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, 2008 and 2007

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, 2008 and 2007

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, 2008 were entirely covered by federal depository insurance.

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

	2008	2007
Board Designated Funds:		
For Capital Improvements:		
Cash	\$ 111,242	\$ 75,384

NOTE D - CAPITAL ASSETS

The Organization's capital assets, additions, disposals and balances for the years ended December 31, 2008 and 2007 were as follows:

	Balance 2007	Additions	Disposals	Balance 2008
Equipment Cost	\$ 172,522	\$ 13,499	\$ --	\$ 186,021
Depreciation	78,630	38,078	--	116,708
Equipment, Net	\$ 93,892	\$(24,579)	\$ --	\$ 69,313

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2008 and 2007

NOTE D - CAPITAL ASSETS - Continued

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

NOTE E - LONG-TERM DEBT

A schedule of changes in non-current liabilities for the years ended December 31, 2008 and 2007 follows:

	Balance 2007	Additions	Reductions	Balance 2008
Note Payable	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

	Balance 2006	Additions	Reductions	Balance 2007
Note Payable	<u>\$ 36,821</u>	<u>\$ --</u>	<u>\$ 36,821</u>	<u>\$ --</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, 2008 and 2007

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 two 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, 2008</u>	<u>City</u>	<u>Hospital</u>
Due to Member	\$ --	\$ 37,673
Subsidy received from Member	64,550	--
Services and supplies purchased through Hospital	--	437,878
Value of donated services and equipment	33,425	6,600
 <u>December 31, 2007</u>		
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

NOTE G - CONTINGENCY AND COMMITMENT

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.

Purchase of Ambulance

The Organization has committed to the purchase of a new ambulance in 2009. The ambulance is estimated to cost \$110,000, of which approximately \$25,000 will be paid from proceeds of new debt and the remaining amount paid from the use of board designated funds.

SHENANDOAH AMBULANCE SERVICE
Notes to Financial Statements
December 31, 2008 and 2007

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:

	2008	2007
Medicare	39%	38%
Medicaid	15	10
Blue Cross	7	11
Other third-party payors	18	19
Patients	21	22
	100%	100%

* * *

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 financial statements of Shenandoah Ambulance Service as of and for the year ended December 31, 2008, and have issued our report thereon dated April 16, 2009. 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.

Gronewald, Bee, Kyhan & W. P. C.

Atlantic, Iowa
April 16, 2009

SHENANDOAH AMBULANCE SERVICE
Schedule of Findings
Year ended December 31, 2008

PART I - SIGNIFICANT DEFICIENCIES

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 deficiency is common among small organizations.

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.

* * *