HEALTH PARTNERS OF SOUTHWEST IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2009 AND 2008

HEALTH PARTNERS OF SOUTHWEST IOWA

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HEALTH PARTNERS OF SOUTHWEST IOWA
Members
June 30, 2009

Members	Location	Representatives
Cass County Memorial Hospital	Atlantic, Iowa	Patricia Markham
Montgomery County Memorial Hospital	Red Oak, Iowa	Allen Pohren
Myrtue Medical Center	Harlan, Iowa	Barry Jacobsen

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, 2009 and 2008 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, 2009 and 2008 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 September 17, 2009 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
September 17, 2009

HEALTH PARTNERS OF SOUTHWEST IOWA
Balance Sheets
June 30,

ASSETS

	2009	2008
Current Assets:		
Cash	$ 601,559	$ 548,800
Certificate of deposit	279,849	272,435
Accounts receivable - members	35,426	22,924
- other hospitals	14,145	12,931
Prepaid expenses	7,415	875
Total current assets	938,394	857,965
Depreciable Capital Assets	476,091	476,091
Less accumulated depreciation	466,254	436,157
	9,837	39,934
Other Assets	3,426	3,426
Total assets	$ 951,657	$ 901,325

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable	$ 9,494	$ 9,824
Due to members	42,129	74,196
Total liabilities	51,623	84,020
Members' Equity:		
Invested in capital assets, net of related debt	9,837	39,934
Unrestricted	890,197	777,371
Total members' equity	900,034	817,305
Total liabilities and members' equity	$ 951,657	$ 901,325

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,

	2009	2008
Revenues:		
Spect Imaging revenue	$ 331,025	$ 316,946
Other services revenue	120,813	94,969
	451,838	411,915
Operating Expenses:		
Contract labor	169,489	156,067
Cost of nuclide	63,752	61,280
Depreciation	40,097	92,307
Dues and subscriptions	310	200
Education	19,809	13,778
Insurance	1,300	1,200
Licenses	5,800	2,700
Miscellaneous expense	38	13
Legal and accounting	11,820	12,821
Postage	2,533	2,372
Purchased services	6,251	4,280
Repairs and maintenance	47,967	44,411
Supplies	7,593	8,591
Telephone	131	256
Travel	130	225
Truck operation	9,301	8,497
Total operating expenses	386,321	408,998
Operating Income	65,517	2,917
Non-Operating Income:		
Investment income	17,212	30,750
Excess of Revenues Over Expenses	82,729	33,667
Members' Equity, Beginning of Year	817,305	783,638
Members' Equity, End of Year	$ 900,034	$ 817,305

The accompanying notes are an integral part of these statements.

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

	2009	2008
Cash flows from operating activities:		
Cash received from clients and members	$ 317,619	$ 307,435
Cash paid to suppliers	(264,658)	(162,645)
Net cash provided by operating activities	52,961	144,790
Cash flows from investing activities:		
Investment income	17,212	30,750
Equipment purchased	(10,000)	--
Purchase of certificate of deposit	(7,414)	(12,984)
Net cash provided by (used in) investing activities	(202)	17,766
Net increase in cash	52,759	162,556
Cash, beginning of year	548,800	386,244
Cash, end of year	$ 601,559	$ 548,800
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 65,517	$ 2,917
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	40,097	92,307
Changes in assets and liabilities		
Accounts receivable	(13,716)	3,506
Prepaid expenses	(6,540)	--
Accounts payable	(330)	2,517
Due to members	(32,067)	43,543
Total adjustments	(12,556)	141,873
Net cash provided by operating activities	$ 52,961	$ 144,790

The accompanying notes are an integral part of these statements.

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.

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, 2009 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, 2009 and 2008 were as follows:

	Balance 2008	Additions	Disposals	Balance 2009
Equipment Cost	$ 476,091	$ 10,000	$ 10,000	$ 476,091
Depreciation	436,157	40,097	10,000	466,254
Equipment, Net	$ 39,934	$(30,097)	$ --	$ 9,837

	Balance 2007	Additions	Disposals	Balance 2008
Equipment Cost	$ 476,091	$ --	$ --	$ 476,091
Depreciation	343,850	92,307	--	436,157
Equipment, Net	$ 132,241	$(92,307)	$ --	$ 39,934

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:

	CCMH	MCMH	MMC
June 30, 2009			
Due from hospitals	$ --	$ 32,189	$ 3,237
Due (to) hospitals	(37,573)	--	(4,556)
Services rendered to hospitals	120,503	88,667	64,128
Services and supplies purchased through hospitals	162,277	22,708	56,544
June 30, 2008			
Due from hospitals	--	20,662	2,262
Due (to) hospitals	(70,800)	--	(3,396)
Services rendered to hospitals	107,986	88,702	68,896
Services and supplies purchased through hospitals	150,921	25,660	45,078

NOTE D - CONTINGENCIES

Economic Dependency

The Organization currently derives the majority of its operating revenue from providing mobile Spect Imaging services. Approximately 60% (64% in 2008) of its revenue is through transactions with member hospitals. The Organization also purchases most of its contract labor and supplies (approximately 63% (54% in 2008) 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 Cass County Memorial Hospital. Settled claims from these risks have not exceeded insurance coverage during any of the past three years.

* * *

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, 2009, and have issued our report thereon dated September 17, 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 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 response to findings 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 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.

Gronewold, Bell, Kyhnn + Co. P.C.
Atlantic, Iowa
September 17, 2009

HEALTH PARTNERS OF SOUTHWEST IOWA
Schedule of Findings
Year Ended June 30, 2009

PART I - REPORTABLE CONDITIONS

09-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.

* * *