

HEALTH PARTNERS OF SOUTHWEST IOWA

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

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	10
Schedule of Findings	12

HEALTH PARTNERS OF SOUTHWEST IOWA  
Members  
June 30, 2011

<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	Barry Jacobsen

# 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 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, 2011 and 2010 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, 2011 and 2010 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 August 18, 2011 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. 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 important for assessing the results of our audit.

*Gronewold, Bell, Kyhnn + Co. P.C.*  
Atlantic, Iowa  
August 18, 2011

HEALTH PARTNERS OF SOUTHWEST IOWA  
Balance Sheets  
June 30,

ASSETS

	<u>2011</u>	<u>2010</u>
<b>Current Assets:</b>		
Cash	\$ 399,390	\$ 752,633
Certificate of deposit	801,404	285,630
Accounts receivable - members	22,864	27,020
- other hospitals	26,682	16,102
Prepaid expenses	<u>5,107</u>	<u>5,037</u>
Total current assets	1,255,447	1,086,422
<b>Depreciable Capital Assets</b>		
Less accumulated depreciation	476,091	476,091
	<u>473,869</u>	<u>470,170</u>
	2,222	5,921
<b>Other Assets</b>		
	<u>3,426</u>	<u>3,426</u>
Total assets	<u>\$ 1,261,095</u>	<u>\$ 1,095,769</u>

LIABILITIES AND MEMBERS' EQUITY

<b>Current Liabilities:</b>		
Accounts payable	\$ 9,324	\$ 9,049
Due to members	<u>90,659</u>	<u>53,574</u>
Total liabilities	99,983	62,623
<b>Members' Equity:</b>		
Invested in capital assets, net of related debt	2,222	5,921
Unrestricted	<u>1,158,890</u>	<u>1,027,225</u>
Total members' equity	<u>1,161,112</u>	<u>1,033,146</u>
Total liabilities and members' equity	<u>\$ 1,261,095</u>	<u>\$ 1,095,769</u>

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,

	2011	2010
Revenues:		
Nuclear medicine revenue	\$ 335,231	\$ 330,541
Other services revenue	186,526	95,876
	521,757	426,417
Operating Expenses:		
Contract labor	191,572	172,980
Cost of nuclide	66,003	59,164
Depreciation	3,699	3,916
Dues and subscriptions	150	150
Education	18,223	594
Insurance	3,097	3,083
Licenses	3,600	--
Miscellaneous expense	20	--
Legal and accounting	11,923	11,822
Postage	1,151	1,975
Purchased services	6,541	5,206
Repairs and maintenance	83,406	27,222
Supplies	11,905	8,454
Telephone	144	132
Travel	--	151
Truck operation	15,791	8,059
	417,225	302,908
Operating Income	104,532	123,509
Non-Operating Income:		
Investment income	23,434	9,603
Excess of Revenues Over Expenses	127,966	133,112
Members' Equity, Beginning of Year	1,033,146	900,034
Members' Equity, End of Year	\$ 1,161,112	\$ 1,033,146

The accompanying notes are an integral part of these statements.

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

	2011	2010
Cash flows from operating activities:		
Cash received from clients and members	\$ 407,968	\$ 318,439
Cash paid to suppliers	( 268,871)	( 171,187)
Net cash provided by operating activities	139,097	147,252
Cash flows from investing activities:		
Investment income	23,434	9,603
Purchase of certificate of deposit	( 515,774)	( 5,781)
Net cash provided by (used in) investing activities	( 492,340)	3,822
Net increase (decrease) in cash	( 353,243)	151,074
Cash, beginning of year	752,633	601,559
Cash, end of year	\$ 399,390	\$ 752,633
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 104,532	\$ 123,509
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,699	3,916
Changes in assets and liabilities		
Accounts receivable	( 6,424)	6,449
Prepaid expenses	( 70)	2,378
Accounts payable	275	( 445)
Due to members	37,085	11,445
Total adjustments	34,565	23,743
Net cash provided by operating activities	\$ 139,097	\$ 147,252

The accompanying notes are an integral part of these statements.

HEALTH PARTNERS OF SOUTHWEST IOWA  
Notes to Financial Statements  
June 30, 2011 and 2010

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 Organization's primary operations currently include operation of a mobile nuclear medicine scanner, a certified training center, and providing credentialing services for members and other area 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, 2011 and 2010

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, 2011 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, 2011 and 2010 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
Equipment Cost	\$ 476,091	\$ --	\$ --	\$ 476,091
Depreciation	<u>470,170</u>	<u>3,699</u>	<u>--</u>	<u>473,869</u>
Equipment, Net	<u>\$ 5,921</u>	<u>\$( 3,699)</u>	<u>\$ --</u>	<u>\$ 2,222</u>
	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Equipment Cost	\$ 476,091	\$ --	\$ --	\$ 476,091
Depreciation	<u>466,254</u>	<u>3,916</u>	<u>--</u>	<u>470,170</u>
Equipment, Net	<u>\$ 9,837</u>	<u>\$( 3,916)</u>	<u>\$ --</u>	<u>\$ 5,921</u>

HEALTH PARTNERS OF SOUTHWEST IOWA  
Notes to Financial Statements  
June 30, 2011 and 2010

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, 2011</u>			
Due from hospitals	\$ --	\$ 18,033	\$ 4,831
Due (to) hospitals	( 84,711)	--	( 5,948)
Services rendered to hospitals	107,365	90,037	78,872
Services and supplies purchased through hospitals	143,685	28,029	65,533
<u>June 30, 2010</u>			
Due from hospitals	\$ --	\$ 20,545	\$ 6,475
Due (to) hospitals	( 48,391)	--	( 5,183)
Services rendered to hospitals	113,900	86,184	71,039
Services and supplies purchased through hospitals	125,245	22,844	58,783

NOTE D - COMMITMENT AND CONTINGENCIES

Economic Dependency

The Organization currently derives the majority of its operating revenue from providing mobile Spect Imaging services. Approximately 53% (64% in 2010) of its revenue is through transactions with member hospitals. The Organization also purchases most of its contract labor and supplies (approximately 57% (68% in 2010) 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.

HEALTH PARTNERS OF SOUTHWEST IOWA  
Notes to Financial Statements  
June 30, 2011 and 2010

NOTE D - COMMITMENT AND CONTINGENCIES - Continued

Equipment Purchase

The Organization purchased equipment costing approximately \$100,000 in July, 2011.

Subsequent Events

The Organization has evaluated all subsequent events through August 18, 2011, the date the financial statements were available to be issued.

\* \* \*

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 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, 2011, and have issued our report thereon dated August 18, 2011. 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, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

To the Members of  
Health Partners of Southwest Iowa

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

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.

*Gronewald, Bell, Kylvorn + Co. P.C.*  
Atlantic, Iowa  
August 18, 2011

HEALTH PARTNERS OF SOUTHWEST IOWA  
Schedule of Findings  
Year Ended June 30, 2011

PART I - REPORTABLE CONDITIONS

11-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.

\* \* \*