

**Northwest Iowa Diagnostics  
Le Mars, Iowa**

**FINANCIAL REPORT**

**June 30, 2004**

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## INDEPENDENT AUDITOR'S REPORT

To the Members  
Northwest Iowa Diagnostics  
Le Mars, Iowa

We have audited the accompanying statements of assets, liabilities and members' equity of Northwest Iowa Diagnostics as of June 30, 2004 and 2003, and the related statements of revenue and expenses, members' equity, and cash flows for the year ended June 30, 2004 and the period August 1, 2002 (inception) to June 30, 2003. These financial statements are the responsibility of the Joint Venture's management. 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, Chapter 11 of the Code of Iowa 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 audits 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 Northwest Iowa Diagnostics as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the year ended June 30, 2004 and the period August 1, 2002 (inception) to June 30, 2003 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Joint Venture adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004 on our consideration of Northwest Iowa Diagnostics' internal control over financial reporting and our test 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5-7 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
August 13, 2004

## **Northwest Iowa Diagnostics MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Northwest Iowa Diagnostics, we offer readers of the Joint Venture's financial statements this narrative overview and analysis of the Joint Venture's financial performance during the fiscal year ended June 30, 2004 and the period August 1, 2002 (inception) to June 30, 2003. Please read it in conjunction with the Joint Venture's financial statements, which follow this section.

### **Overview of the Financial Statements**

This annual report includes management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Joint Venture. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### **Required Financial Statements**

The financial statements of Northwest Iowa Diagnostics report information of the Joint Venture using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The balance sheet includes all of the Joint Venture's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Northwest Iowa Diagnostic's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Joint Venture and assessing the liquidity and the financial flexibility of Northwest Iowa Diagnostics.

All of the current year's revenues and expenses are accounted for in the statements of revenues and expenses, and changes in members' equity. This statement measures the success of the Northwest Iowa Diagnostics' operations over the past year and can be used to determine whether the Joint Venture has successfully recovered all its costs through its service revenue, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### **Financial Highlights**

- Total assets increased by \$88,514 to \$173,531
- Members' equity increased by \$85,555
- Operating revenue increase by \$138,683 primarily due to increased demand from member contracts and the fact that year 2003 was a partial year of operations
- Operating expenses increased by \$89,301 due to increased demand for services
- Total margin for fiscal year 2004 was 24.5% compared to 16% for fiscal year 2003

### **Financial Analysis of the Joint Venture**

The balance sheet and the statements of revenues and expenses, and changes in members' equity report the net assets of the Joint Venture and the changes in them. The Joint Venture's net assets—the difference between assets and liabilities—are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Joint Venture's net assets are one indicator of whether its financial health is improving or deteriorating.

## Net Assets

A summary of the Joint Venture's balance sheets at June 30, 2004 and 2003, are presented in Table 1 below:

**Table 1**  
**Condensed Balance Sheets**

	<u>June 30,</u> <u>2004</u>	<u>June 30,</u> <u>2003</u>	<u>Dollar</u> <u>change</u>	<u>Total %</u> <u>change</u>
Current and other assets	\$ <u>173,351</u>	\$ <u>85,017</u>	\$ <u>88,514</u>	<u>104%</u>
Total assets	\$ <u>173,351</u>	\$ <u>85,017</u>	\$ <u>88,514</u>	<u>104%</u>
Other liabilities	\$ <u>16,184</u>	\$ <u>13,225</u>	\$ <u>2,959</u>	<u>22%</u>
Total liabilities	\$ <u>16,184</u>	\$ <u>13,225</u>	\$ <u>2,959</u>	<u>22%</u>
Total net assets	\$ <u>157,347</u>	\$ <u>71,792</u>	\$ <u>85,555</u>	<u>119%</u>

As can be seen in Table 1, net assets have increased by \$85,555 to \$157,347 in fiscal year 2004. The change in net assets results from operating profits on services provided to members of the Joint Venture.

During fiscal year 2004, Sioux Center Community Hospital joined Northwest Iowa Diagnostics as a member with an investment of \$7,200.

## Revenues, Expenses and Changes in Members' Equity

The following table presents a summary of the Joint Venture's historical revenues and expenses for the fiscal year ended June 30, 2004 and the period August 1, 2003 (inception) to June 30, 2003.

**Table 2**  
**Condensed Statements of Revenue and Expenses, and Changes in Members' Equity**

	<u>2004</u>	<u>2003</u>
Total revenue	\$319,418	\$180,735
Expenses	<u>241,063</u>	<u>151,762</u>
Excess of revenue over expenses	78,355	28,973
Total members' equity, beginning	71,792	-
Capital contributions from members	7,200	50,000
Return of capital to a member	<u>-</u>	<u>(7,181)</u>
Total members' equity, ending	\$ <u>157,347</u>	\$ <u>71,792</u>

### **Operating and Financial Performance**

The following summarizes the Joint Venture's statements of revenues, expenses, and changes in members' equity between June 30, 2004 and 2003.

**Volume:** Fiscal year 2004 was the first complete year of operations as the venture began operations in 2003 as a partial year. This was a factor as revenues grew 77% from fiscal year 2003. The volume of services on a monthly basis continues to grow as well as demand for diagnostic ultrasound services from member facilities increases. Diagnostic ultrasound services continue to be the only service provided by Northwest Iowa Diagnostics.

Expenses grew by 59% from 2003, reflecting the full year of services in 2004 as compared to the partial year in 2003. The Joint Venture continues to contract with Floyd Valley Hospital and Orange City Health System to provide the ultrasound technicians who perform the services of the Joint Venture.

### **Capital Assets**

Northwest Iowa Diagnostics does not utilize any capital assets in the operations. The venture consists of professional services of an ultrasound technician to contract facilities for the performance of diagnostic ultrasound exams.

### **Debt Administration**

Northwest Iowa Diagnostics does not utilize any debt in its operations other than accounts payable for routine supplies and contract personnel. There are no long-term debt or capital leases.

### **Contacting Northwest Iowa Diagnostics' Management**

This financial report is designed to provide our customers, government officials, and creditors with a general overview of the Joint Venture's finances. If you have questions about this report or need additional information, contact Northwest Iowa Diagnostics at (712) 546-3338 or write care of: President, Northwest Iowa Diagnostics, P.O. Box 10, LeMars, Iowa 51031.

**Northwest Iowa Diagnostics**  
**STATEMENTS OF ASSETS, LIABILITIES AND MEMBERS' EQUITY**

	<b>June 30</b>	
<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
Cash	\$ 142,351	\$ 60,082
Accounts receivable	<u>31,180</u>	<u>24,935</u>
Totals	<u>\$ 173,531</u>	<u>\$ 85,017</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Accounts payable		
Members	\$ 16,184	\$ 11,425
Other	<u>—</u>	<u>1,800</u>
Total liabilities	<u>16,184</u>	<u>13,225</u>
Members' equity	<u>157,347</u>	<u>71,792</u>
Totals	<u>\$ 173,531</u>	<u>\$ 85,017</u>

See Notes to Financial Statements.

**Northwest Iowa Diagnostics  
STATEMENTS OF REVENUE AND EXPENSES**

	<b>Year ended June 30, 2004</b>	<b>Period August 1, 2002 (inception) to June 30, 2003</b>
<b>REVENUE</b>		
Professional fees	\$ 319,418	\$ 180,735
<b>OPERATING EXPENSES</b>		
Purchased services	232,671	123,931
Supplies	44	230
Legal fees	4,042	4,934
Advertising and marketing	747	508
Other	<u>3,559</u>	<u>22,159</u>
	<u>241,063</u>	<u>151,762</u>
 Excess of revenue over expenses	 <u>\$ 78,355</u>	 <u>\$ 28,973</u>

**Northwest Iowa Diagnostics  
STATEMENTS OF MEMBERS' EQUITY**

	<b>Year ended June 30, 2004</b>	<b>Period August 1, 2002 (inception) to June 30, 2003</b>
<b>BALANCE</b> , beginning	\$ 71,792	\$ —
Capital contributions from members	7,200	50,000
Return of capital to a member	—	(7,181)
Excess of revenue over expenses	<u>78,355</u>	<u>28,973</u>
<b>BALANCE</b> , ending	<u>\$ 157,347</u>	<u>\$ 71,792</u>

**Northwest Iowa Diagnostics  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30, 2004</b>	<b>Period August 1, 2002 (inception) to June 30, 2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from providing services	\$ 313,173	\$ 155,800
Cash paid to suppliers for goods and services	<u>(238,104)</u>	<u>(138,537)</u>
Net cash provided by operating activities	<u>75,069</u>	<u>17,263</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contributions from members	7,200	50,000
Return of capital to a member	<u>—</u>	<u>(7,181)</u>
Net cash provided by financing activities	<u>7,200</u>	<u>42,819</u>
<b>NET CHANGE IN CASH</b>	82,269	60,082
<b>CASH</b>		
Beginning	<u>60,082</u>	<u>—</u>
Ending	<u>\$ 142,351</u>	<u>\$ 60,082</u>
<b>RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Excess of revenue over expenses	\$ 78,355	\$ 28,973
Change in assets and liabilities		
(Increase) in accounts receivable	(6,245)	(24,935)
Increase in accounts payable	<u>2,959</u>	<u>13,225</u>
Net cash provided by operating activities	<u>\$ 75,069</u>	<u>\$ 17,263</u>

**Northwest Iowa Diagnostics  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

Northwest Iowa Diagnostics is a Joint Venture by and among Floyd Valley Hospital, Hawarden Community Hospital, Hegg Memorial Health Center, Orange City Health System and Sioux Center Community Hospital formed in August, 2002 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Joint Venture is to provide a means whereby the resources, expertise, and knowledge of the Members can be combined, coordinated, and shared in order to achieve the Members' common goals of improving the quality, availability, and cost effectiveness of ultrasound services available to their respective service areas.

The Joint Venture provides staffing for services related to the administration of ultrasound procedures. The Joint Venture provides services at each Members' facility and other locations in Northwest Iowa.

**Reporting Entity**

For financial reporting purposes, the Joint Venture has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Joint Venture has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Joint Venture are such that exclusion would cause the Joint Venture's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Joint Venture to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Joint Venture. The Joint Venture has no component units which meet the Governmental Accounting Standards Board criteria.

**Measurement Focus and Basis of Accounting**

The accounting policies of the Joint Venture conform to accounting principles generally accepted in the United States of America as applicable to governments. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Joint Venture has no government or fiduciary funds. The Joint Venture's accounts are organized into a single proprietary fund. The enterprise fund (a proprietary fund) is used to account for operations (a) that are operated in a manner similar to private business where the intent of the governing body is that the cost of providing services is financed or recovered primarily through user charges or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or changes in net assets is appropriate for capital maintenance.

The Joint Venture's principal operating revenues are the fees charged for service to member Hospitals and others.

**Accounting Standards**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Joint Venture has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

Effective July 1, 2003, the Joint Venture adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements had no financial impact on the Joint Venture.

**Northwest Iowa Diagnostics  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income Taxes**

The Joint Venture is not subject to income taxes. Each member recognizes its share of income, whether or not distributed, and reports its share of any net income or loss on its financial statements. As a consequence, no provision is made in these financial statements for income taxes.

**Use of Estimates**

The preparation of financial statements prepared in accordance 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, 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.

**NOTE 2 RELATED PARTY TRANSACTIONS**

The Joint Venture provides ultrasound services to the Member Hospitals. Accounts receivable for these services totaled \$31,180 and \$21,605 at June 30, 2004 and 2003, respectively.

The Joint Venture owed the Member Hospitals \$16,184 and \$11,425 for reimbursement for expenses paid on behalf of the Joint Venture at June 30, 2004 and 2003, respectively.

The Joint Venture has agreements with Floyd Valley Hospital and Orange City Health System, members of the Joint Venture, to lease the services of employees from the Hospitals. The Joint Venture paid \$229,854 and \$109,926 under these agreements during the year ended June 30, 2004 and the period August 1, 2002 (inception) to June 30, 2003, respectively.

The Joint Venture reimbursed \$2,341 and \$21,672 to Floyd Valley Hospital for legal fees and recruiting expenses incurred by the Hospital on behalf of the Joint Venture.

The Joint Venture has agreements with the Members of the Joint Venture to provide ultrasound services to them. The Joint Venture was paid \$297,110 and \$145,250 under these agreements during the year ended June 30, 2004 and the period August 1, 2002 (inception) to June 30, 2003, respectively.

The Joint Venture paid \$2,990 to Orange City Health System for the purchase of ultrasound supplies.

These agreements expire August 1, 2004 and are automatically renewable for 1 year periods thereafter.

**NOTE 3 ALLOCATION OF EXCESS OF REVENUE OVER EXPENSES**

In accordance with the 28E agreement that governs the Joint Venture, cash distributions and the excess of revenue over expenses are allocated to Members in proportion to their capital accounts.

**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  
Northwest Iowa Diagnostics  
Le Mars, Iowa

We have audited the financial statements of Northwest Iowa Diagnostics as of June 30, 2004 and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa 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 audits, we considered Northwest Iowa Diagnostics' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Northwest Iowa Diagnostics' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described is a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northwest Iowa Diagnostics' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*.

This report, a public record by law, is intended solely for the information and use of the Members of Northwest Iowa Diagnostics and other parties to whom the Joint Venture may report. This report is not intended to be and should not be used by anyone other than these specified parties.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
August 13, 2004

**Northwest Iowa Diagnostics  
SCHEDULE OF FINDINGS  
June 30, 2004**

We noted that only one person has the primary responsibility for the accounting and financial duties. As a result, many of those aspects of internal control procedures which rely upon an adequate segregation of duties are, for all practical purposes, missing. We recognize that the Joint Venture may not be large enough to make the employment of additional persons for the purpose of segregating duties practicable from a financial standpoint, but we are required, under our professional responsibilities, to call the situation to your attention.