

**Northwest Iowa Diagnostics
Le Mars, Iowa**

FINANCIAL REPORT

June 30, 2005

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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, 2005 and 2004, and the related statements of revenue and expenses, members' equity, and cash flows for the years ended June 30, 2005 and 2004. 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 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005 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 grants 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 4-6 is not a required part of the basic financial statements but is supplementary information required by 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 11, 2005

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 years ended June 30, 2005, 2004 and 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 statement of assets, liabilities and members' equity 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. 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 of its costs through its service revenue, profitability and credit worthiness.

The statement of members' equity explains the changes to members' capital over the past year.

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, financing, and investing 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 decreased by \$52,311 from FY 2004 to \$121,220 due to a payout of excess cash to capital partners.
- Members' equity decreased by \$49,667 from FY 2004 as excess cash not needed to fund operations was returned to partners through a capital draw-down.
- Operating revenue increase from FY 2004 by \$52,872 primarily due to increased demand from member contracts.
- Operating expenses increased from FY 2004 by \$26,771 due to increased demand for services and the need for leased staffing to cover the demand.
- Total margin for FY 2005 was 28.5% compared to 24.5% for FY 2004 and 16% in FY 2003.

Financial Analysis of the Joint Venture

The statement of assets, liabilities and members' equity and the statements of revenues and expenses, and 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 statement of assets, liabilities and members' equity at June 30, 2005, 2004 and 2003, are presented in Table 1 below:

Table 1
Condensed Balance Sheets

	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>	<u>June 30,</u> <u>2003</u>
Current and other assets	\$ <u>121,220</u>	\$ <u>173,351</u>	\$ <u>85,017</u>
Total assets	\$ <u>121,220</u>	\$ <u>173,351</u>	\$ <u>85,017</u>
Other liabilities	\$ <u>13,540</u>	\$ <u>16,184</u>	\$ <u>13,225</u>
Total liabilities	\$ <u>13,540</u>	\$ <u>16,184</u>	\$ <u>13,225</u>
Total members' equity	\$ <u>107,680</u>	\$ <u>157,347</u>	\$ <u>71,792</u>

As can be seen in Table 1, members' equity has decreased by \$49,667 to \$107,680 in fiscal year 2005. The decrease in members' equity is a result of a payout of excess cash to partners during the fiscal year of \$156,465 after operating profits of \$106,798 on services provided to members of the Joint Venture.

Revenues, Expenses and Members' Equity

The following table presents a summary of the Joint Venture's historical revenues and expenses for each of the fiscal years ended June 30, 2005, 2004 and 2003.

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

	<u>Year ended June 30</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total revenue	\$372,290	\$319,418	\$180,735
Expenses	<u>267,834</u>	<u>241,063</u>	<u>151,762</u>
Operating income	104,456	78,355	28,973
Nonoperating gains	<u>2,342</u>	<u>—</u>	<u>—</u>
Excess of revenues over expenses	106,798	78,355	28,973
Total members' equity, beginning	157,347	71,792	—
Capital contributions from members	10,943	7,200	50,000
Return of capital to members	<u>(167,408)</u>	<u>—</u>	<u>(7,181)</u>
Total members' equity, ending	\$ <u>107,680</u>	\$ <u>157,347</u>	\$ <u>71,792</u>

Operating and Financial Performance

The following summarizes the Joint Venture's statements of revenues, expenses, and members' equity between June 30, 2005, 2004 and 2003.

Volume: Volume continued to grow in the third year of operations with FY 2005 revenues 17% greater than FY 2004. This was a factor as revenues grew 77% from fiscal year 2003. The volume of services continues to grow as the demand from member facilities for diagnostic ultrasound grow. Diagnostic ultrasound services continue to be the only service provided by Northwest Iowa Diagnostics.

Expenses for FY 2005 grew by 11% from FY 2004 levels, reflecting the need for greater contract staffing levels to meet the growing demand for services from member sites. 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

	June 30	
ASSETS	2005	2004
Cash	\$ 79,260	\$ 142,351
Accounts receivable	<u>41,960</u>	<u>31,180</u>
Totals	<u>\$ 121,220</u>	<u>\$ 173,531</u>
LIABILITIES AND MEMBERS' EQUITY		
Accounts payable		
Members	\$ 13,493	\$ 16,184
Other	<u>47</u>	<u>-</u>
Total liabilities	<u>13,540</u>	<u>16,184</u>
Members' equity	<u>107,680</u>	<u>157,347</u>
Totals	<u>\$ 121,220</u>	<u>\$ 173,531</u>

See Notes to Financial Statements.

Northwest Iowa Diagnostics
STATEMENTS OF REVENUE AND EXPENSES

	Year ended June 30	
	2005	2004
REVENUE		
Professional fees	\$ <u>372,290</u>	\$ <u>319,418</u>
 OPERATING EXPENSES		
Purchased services	266,079	232,671
Supplies	130	44
Legal fees	-	4,042
Advertising and marketing	1,320	747
Other	<u>305</u>	<u>3,559</u>
Total expenses	<u>267,834</u>	<u>241,063</u>
Operating income	104,456	78,355
 NONOPERATING GAIN		
Interest income	<u>2,342</u>	<u>-</u>
 Excess of revenue over expenses	 \$ <u>106,798</u>	 \$ <u>78,355</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2005	2004
BALANCE , beginning	\$ 157,347	\$ 71,792
Capital contributions from members	10,943	7,200
Return of capital to members	(167,408)	-
Excess of revenue over expenses	106,798	78,355
BALANCE , ending	\$ 107,680	\$ 157,347

**Northwest Iowa Diagnostics
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from providing services	\$ 361,510	\$ 313,173
Cash paid to suppliers for goods and services	<u>(270,478)</u>	<u>(238,104)</u>
Net cash provided by operating activities	<u>91,032</u>	<u>75,069</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions from members	10,943	7,200
Return of capital to members	<u>(167,408)</u>	<u>—</u>
Net cash provided by (used in) financing activities	<u>(156,465)</u>	<u>7,200</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>2,342</u>	<u>—</u>
NET CHANGE IN CASH	(63,091)	82,269
CASH		
Beginning	<u>142,351</u>	<u>60,082</u>
Ending	<u>\$ 79,260</u>	<u>\$ 142,351</u>
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 104,456	\$ 78,355
Change in assets and liabilities		
(Increase) in accounts receivable	(10,780)	(6,245)
Increase (decrease) in accounts payable	<u>(2,644)</u>	<u>2,959</u>
Net cash provided by operating activities	<u>\$ 91,032</u>	<u>\$ 75,069</u>

See Notes to Financial Statements.

**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 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.

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.

**Northwest Iowa Diagnostics
NOTES TO FINANCIAL STATEMENTS**

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

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 \$41,960 and \$31,180 at June 30, 2005 and 2004, respectively.

The Joint Venture owed the Member Hospitals \$13,493 and \$16,184 for reimbursement for expenses paid on behalf of the Joint Venture at June 30, 2005 and 2004, 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 incurred expenses of \$262,055 and \$229,854 under these agreements during the years ended June 30, 2005 and 2004, respectively.

The Joint Venture has agreements with the Members of the Joint Venture to provide ultrasound services to them. The Joint Venture charged the Members \$343,240 and \$297,110 under these agreements during the years ended June 30, 2005 and 2004, respectively.

These agreements expire August 1, 2005 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 and for the year ended June 30, 2005 and have issued our report thereon dated August 11, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 reportable 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 11, 2005

**Northwest Iowa Diagnostics
SCHEDULE OF FINDINGS
June 30, 2005**

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.