

**Northwest Iowa Diagnostics
Le Mars, Iowa**

FINANCIAL REPORT

June 30, 2009

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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, 2009 and 2008, and the related statements of revenue and expenses, members' equity, and cash flows for the years ended June 30, 2009 and 2008. 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 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 Northwest Iowa Diagnostics as of June 30, 2009 and 2008 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 September 10, 2009 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 considered in assessing 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
September 10, 2009

Northwest Iowa Diagnostics MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Northwest Iowa Diagnostics, we offer readers of the hospital's financial statements this narrative overview and analysis of the joint venture's financial performance during the fiscal years ended June 30, 2009, 2008 and 2007. 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 auditors 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 member's equity includes all of the 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 statement 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 venture has successfully recovered all of 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, noncapital 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 \$19,665 from FY 2008 as cash on hand decreased by 20%.
- Members' equity decreased by \$25,835 from FY 2008 as \$50,000 of retained earnings were distributed during the fiscal year.
- Operating revenue increased by 13% from FY 2008 on a small increase in volume from member contracts.
- Operating expenses increased from FY 2008 by \$75,980 due to increased staffing levels to provide for adequate staffing and emergency call availability.
- Total margin for FY 2009 was 4.7% compared to 9% for FY 2008 and 21% in FY 2006. Management has made the decision to allow margins to decrease by holding pricing flat while costs have increased. We believe that margins in the current year is adequate and will implement pricing changes in the future to maintain margins at this level.

Financial Analysis of the Joint Venture

The statements of assets, liabilities and members' equity and of revenues and expenses, and of members' equity report the net assets of the joint venture and the changes in them. The 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 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 statements of assets, liabilities and members' equity at June 30, 2009, 2008 and 2007, are presented in Table 1 below:

Table 1
Condensed Statements of Assets, Liabilities and Members' Equity

	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
Current and other assets	\$ <u>166,961</u>	\$ <u>186,626</u>	\$ <u>143,455</u>
Total assets	\$ <u>166,961</u>	\$ <u>186,626</u>	\$ <u>143,455</u>
Other liabilities	\$ <u>39,566</u>	\$ <u>33,396</u>	\$ <u>32,564</u>
Total liabilities	\$ <u>39,566</u>	\$ <u>33,396</u>	\$ <u>32,564</u>
Total net assets	\$ <u>127,395</u>	\$ <u>153,230</u>	\$ <u>110,891</u>

As can be seen in Table 1, net assets have decreased by \$25,835 to \$127,395 in fiscal year 2009. The decrease in net assets is a result of an decrease in cash due to a payout of retained earnings during the fiscal year.

Revenues, Expenses and Changes in 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, 2009, 2008 and 2007.

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

	<u>Year ended June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total revenue	\$509,963	\$450,910	\$443,342
Expenses	<u>486,810</u>	<u>410,830</u>	<u>354,546</u>
Operating income	23,153	40,080	88,796
Nonoperating gains	<u>1,012</u>	<u>2,259</u>	<u>3,111</u>
Excess of revenues over expenses	24,165	42,339	91,907
Total members' equity, beginning	153,230	110,891	108,984
Return of capital to members	<u>(50,000)</u>	—	<u>(90,000)</u>
Total members' equity, ending	\$ <u>127,395</u>	\$ <u>153,230</u>	\$ <u>110,891</u>

Operating and Financial Performance

The following summarizes the joint venture's statements of revenues, expenses, and changes in members' equity between June 30, 2009, 2008 and 2007.

Volume: Volume continued to grow in the seventh year of operations, however a decision by management to keep revenue increases small and reduce the profit margin to a smaller level kept overall profit levels to lower levels. The volume of services continues to grow as the demand from member facilities for diagnostic ultrasounds grow. Diagnostic ultrasound services continue to be the only service provided by Northwest Iowa Diagnostics.

Expenses for FY 2009 grew by 19% from FY 2008 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, Sioux Center Hospital and Orange City Health System to provide the ultrasound technicians who perform the services of the joint venture. The venture also has a contract with Voss Sonographic Services to provide ultrasound technicians as well as a management contract to provide day to day management of the operations.

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	2009	2008
Cash	\$ 122,786	\$ 151,736
Accounts receivable	<u>44,175</u>	<u>34,890</u>
Totals	<u>\$ 166,961</u>	<u>\$ 186,626</u>
LIABILITIES AND MEMBERS' EQUITY		
Accounts payable		
Members	\$ 36,387	\$ 30,331
Other	<u>3,179</u>	<u>3,065</u>
Total liabilities	<u>39,566</u>	<u>33,396</u>
Members' equity	<u>127,395</u>	<u>153,230</u>
Totals	<u>\$ 166,961</u>	<u>\$ 186,626</u>

See Notes to Financial Statements.

Northwest Iowa Diagnostics
STATEMENTS OF REVENUE AND EXPENSES

	Year ended June 30	
	2009	2008
REVENUE		
Professional fees	\$ <u>509,963</u>	\$ <u>450,910</u>
 OPERATING EXPENSES		
Purchased services	483,892	408,352
Supplies	66	52
Advertising and marketing	52	1,176
Other	<u>2,800</u>	<u>1,250</u>
Total expenses	<u>486,810</u>	<u>410,830</u>
Operating income	23,153	40,080
 NONOPERATING GAIN		
Interest income	<u>1,012</u>	<u>2,259</u>
 Excess of revenue over expenses	 \$ <u><u>24,165</u></u>	 \$ <u><u>42,339</u></u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2009	2008
BALANCE , beginning	\$ 153,230	\$ 110,891
Return of capital to members	(50,000)	-
Excess of revenue over expenses	24,165	42,339
BALANCE , ending	\$ 127,395	\$ 153,230

**Northwest Iowa Diagnostics
STATEMENTS OF CASH FLOWS**

	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from providing services	\$ 500,679	\$ 453,625
Cash paid to suppliers for goods and services	<u>(480,641)</u>	<u>(409,998)</u>
Net cash provided by operating activities	<u>20,038</u>	<u>43,627</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Return of capital to members	<u>(50,000)</u>	<u>—</u>
Net cash (used in) noncapital financing activities	<u>(50,000)</u>	<u>—</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>1,012</u>	<u>2,259</u>
NET CHANGE IN CASH	(28,950)	45,886
CASH		
Beginning	<u>151,736</u>	<u>105,850</u>
Ending	<u>\$ 122,786</u>	<u>\$ 151,736</u>
RECONCILIATION OF EXCESS OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 23,153	\$ 40,080
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(9,285)	2,715
Increase in accounts payable	<u>6,170</u>	<u>832</u>
Net cash provided by operating activities	<u>\$ 20,038</u>	<u>\$ 43,627</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 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 CASH

The Joint Venture's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Joint Venture is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Joint Venture; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Joint Venture had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE 3 RELATED PARTY TRANSACTIONS

The Joint Venture provides ultrasound services to the Member Hospitals. Accounts receivable for these services totaled \$43,905 and \$34,380 at June 30, 2009 and 2008, respectively.

The Joint Venture owed the Member Hospitals \$36,387 and \$30,331 for reimbursement for expenses paid on behalf of the Joint Venture at June 30, 2009 and 2008, respectively.

The Joint Venture has agreements with Floyd Valley Hospital, Orange City Health System, and Sioux Center Community Hospital members of the Joint Venture, to lease the services of employees from the Hospitals. The Joint Venture incurred expenses of \$430,722 and \$370,547 under these agreements during the years ended June 30, 2009 and 2008, 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 \$490,793 and \$429,360 under these agreements during the years ended June 30, 2009 and 2008, respectively.

These agreements expire August 1, 2009 and are automatically renewable for 1 year periods thereafter.

NOTE 4 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.

**Northwest Iowa Diagnostics
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 RISK MANAGEMENT

The Joint Venture is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by the members' commercial insurance purchased from independent third parties. The members assume liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**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, 2009 and have issued our report thereon dated September 10, 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 Northwest Iowa Diagnostics' 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 an opinion on the effectiveness of the Northwest Iowa Diagnostics' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northwest Iowa Diagnostics' 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 a certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Northwest Iowa Diagnostics' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Northwest Iowa Diagnostics' financial statements that is more than inconsequential will not be prevented or detected by the Northwest Iowa Diagnostics' internal control. We consider the deficiency described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Northwest Iowa Diagnostics' internal control.

Our consideration of 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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in Part I of the Schedule of Findings is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Northwest Iowa Diagnostics' operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Joint Venture. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of management and 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
September 10, 2009

**Northwest Iowa Diagnostics
SCHEDULE OF FINDINGS
June 30, 2009**

Part I – Findings Related to the Financial Statements

09-I-A SEGREGATION OF DUTIES

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has primary control over all accounting records, including billing, deposit preparation, posting transactions to accounting records, reconciling payments to receivable records and bank reconciliations.

Recommendation

The Joint Venture should designate a member of the Board to provide additional control through review of financial transactions to help ensure that all transactions are properly recorded.

Response

The Joint Venture will continue to improve its review of financial records.

Conclusion

Response accepted.

Part II – Findings Related to Required Statutory Reporting

09-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Joint Venture funds were noted.

09-II-B BOARD MINUTES

No transactions were found that we believe should have been approved in the Board minutes but were not.

09-II-C DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Joint Venture's investment policy.

09-II-D PUBLISHING REQUIREMENTS

We noted no instances of noncompliance with the required publishing of Board meeting minutes.