

**Northwest Iowa Diagnostics
Le Mars, Iowa**

FINANCIAL REPORT

June 30, 2012

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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, 2012 and 2011, and the related statements of revenue and expenses, members' equity, and cash flows for the years then ended. 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, 2012 and 2011 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 March 16, 2013 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
March 16, 2013

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, 2012, 2011 and 2010. 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 \$43,720 from FY 2011 as revenues decreased due to a withdrawal of Orange City Area Health System from the partnership in late FY 2011. This resulted in lower cash and accounts receivable.
- Member's equity decreased by \$30,545 from FY 2011 as the earnings were negative during the fiscal year with the loss of Orange City Area Health System as a partner and the corresponding decrease in revenues from operations.
- Operating revenue decreased by 35% from FY 2011 on decreases in volume.
- Operating expenses decreased from FY 2011 by \$131,079 due to decreased costs for staffing ultrasound techs on lower revenue volume and demand for services.
- Total margin for FY 2012 was (7.6%) compared to 8.3% for FY 2011 and 1.7% in FY 2010. Management plans to implement additional rate increases in FY 2013 to return the operating margin to a positive number.

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, 2012, 2011 and 2010, are presented in Table 1 below:

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

	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
Current and other assets	\$ <u>108,379</u>	\$ <u>152,099</u>	\$ <u>132,026</u>
Total assets	\$ <u>108,379</u>	\$ <u>152,099</u>	\$ <u>132,026</u>
Other liabilities	\$ <u>38,420</u>	\$ <u>51,595</u>	\$ <u>45,064</u>
Total liabilities	\$ <u>38,420</u>	\$ <u>51,595</u>	\$ <u>45,064</u>
Total net assets	\$ <u>69,959</u>	\$ <u>100,504</u>	\$ <u>86,962</u>

As can be seen in Table 1, net assets have decreased by \$30,545 to \$69,959 in fiscal year 2012. The decrease in net assets is a result of loss on operations.

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, 2012, 2011 and 2010.

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

	<u>Year ended June 30</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total revenue	\$401,095	\$613,255	\$552,010
Expenses	431,740	562,819	542,867
Operating income (loss)	(30,645)	50,436	9,143
Nonoperating gains	100	279	424
Excess (deficiency) of revenues over expenses	(30,545)	50,715	9,567
Total members' equity, beginning	100,504	86,962	127,395
Return of capital to members	—	(37,173)	(50,000)
Total members' equity, ending	\$ <u>69,959</u>	\$ <u>100,504</u>	\$ <u>86,962</u>

Operating and Financial Performance

The following summarizes the joint venture's statements of revenues, expenses, and changes in members' equity during the fiscal years ended June 30, 2012, 2011 and 2010.

Volume: Volume decreased significantly in the past year with the decision by Orange City Area Health System to withdraw from the venture. Management will make adjustments to rates charged to member facilities for ultrasound services to return the venture to profitability. Diagnostic ultrasound services continue to be the only service provided by Northwest Iowa Diagnostics.

Expenses for FY 2012 were reduced by 23% from FY 2011 levels, reflecting the decrease in staffing costs associated with the reduced volume of services. The Joint Venture contracts with several of the partner hospitals to provide ultrasound technician staffing as well as a couple of private firms. The venture also has a management contract with Voss Sonographic Services to provide the day to day management of the 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, 714 Lincoln Street NE, LeMars, Iowa 51031.

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

	June 30	
ASSETS	2012	2011
Cash	\$ 77,629	\$ 87,924
Accounts receivable	<u>30,750</u>	<u>64,175</u>
Totals	<u>\$ 108,379</u>	<u>\$ 152,099</u>
LIABILITIES AND MEMBERS' EQUITY		
Accounts payable		
Members	\$ 36,800	\$ 48,427
Other	<u>1,620</u>	<u>3,168</u>
Total liabilities	<u>38,420</u>	<u>51,595</u>
Members' equity	<u>69,959</u>	<u>100,504</u>
Totals	<u>\$ 108,379</u>	<u>\$ 152,099</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2012	2011
REVENUE		
Professional fees	\$ <u>401,095</u>	\$ <u>613,255</u>
 OPERATING EXPENSES		
Purchased services	427,957	562,599
Supplies	89	44
Advertising and marketing	50	176
Other	<u>3,644</u>	<u>—</u>
Total expenses	<u>431,740</u>	<u>562,819</u>
Operating income (loss)	(30,645)	50,436
 NONOPERATING GAIN		
Interest income	<u>100</u>	<u>279</u>
 Excess (deficiency) of revenue over expenses	 \$ <u><u>(30,545)</u></u>	 \$ <u><u>50,715</u></u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2012	2011
BALANCE , beginning	\$ 100,504	\$ 86,962
Return of capital to members	-	(37,173)
Excess (deficiency) of revenue over expenses	(30,545)	50,715
BALANCE , ending	\$ 69,959	\$ 100,504

**Northwest Iowa Diagnostics
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from providing services	\$ 434,520	\$ 597,665
Cash paid to suppliers for goods and services	<u>(444,915)</u>	<u>(556,293)</u>
Net cash provided by (used in) operating activities	<u>(10,395)</u>	<u>41,372</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Return of capital to members	<u>—</u>	<u>(37,173)</u>
Net cash (used in) noncapital financing activities	<u>—</u>	<u>(37,173)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>100</u>	<u>279</u>
NET CHANGE IN CASH	(10,295)	4,478
CASH		
Beginning	<u>87,924</u>	<u>83,446</u>
Ending	\$ <u>77,629</u>	\$ <u>87,924</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (30,645)	\$ 50,436
Change in assets and liabilities		
(Increase) decrease in accounts receivable	33,425	(15,595)
Increase (decrease) in accounts payable	<u>(13,175)</u>	<u>6,531</u>
Net cash provided by (used in) operating activities	\$ <u>(10,395)</u>	\$ <u>41,372</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, and Sioux Center Community Hospital formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Effective June 30, 2011, the Orange City Health System withdrew from the Joint Venture. 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

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

**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.

The Joint Venture follows the accounting for uncertainty in income tax requirements as required by the Income Tax Topic of the *FASB Accounting Standards Codification*. Management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Joint Venture's federal income tax returns since 2008 open by statute are subject to examination by the tax authorities. The Joint Venture has not been notified of any impending examinations by tax authorities, and no examinations are in process.

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, 2012 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 \$30,750 and \$64,080 at June 30, 2012 and 2011, respectively.

The Joint Venture owed the Member Hospitals \$36,800 and \$48,427 for reimbursement for expenses paid on behalf of the Joint Venture at June 30, 2012 and 2011, respectively.

The Joint Venture has agreements with Floyd Valley Hospital, Hegg Memorial Health Center 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 \$404,918 and \$515,425 under these agreements during the years ended June 30, 2012 and 2011, respectively.

Northwest Iowa Diagnostics
NOTES TO FINANCIAL STATEMENTS

NOTE 3 RELATED PARTY TRANSACTIONS (continued)

The Joint Venture has agreements with the Members of the Joint Venture to provide ultrasound services to them. The Joint Venture charged the Members \$385,215 and \$592,640 under these agreements during the years ended June 30, 2012 and 2011, respectively.

These agreements expire August 1, 2012 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.

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, 2012 and have issued our report thereon dated March 16, 2013. 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

Management of Northwest Iowa Diagnostics is responsible for establishing and maintaining effective 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.

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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

Statutory and other legal matters about the Northwest Iowa Diagnostics' operations for the year ended June 30, 2012 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.

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
March 16, 2013

**Northwest Iowa Diagnostics
SCHEDULE OF FINDINGS
June 30, 2012**

Part I – Findings Related to the Financial Statements

12-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

No matters noted.