

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2005 and 2004**

Together with Independent Auditor's Report

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Table of Contents

June 30, 2005 and 2004

	<u>Page No.</u>
Officials - June 30, 2005	1
Independent Auditor's Report	2 – 3
Management's Discussion and Analysis	4 – 10
Financial Statements:	
Balance Sheets June 30, 2005 and 2004	11
Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2005 and 2004	12
Statements of Cash Flows For the Years Ended June 30, 2005 and 2004	13 – 14
Notes to Financial Statements June 30, 2005 and 2004	15 – 27
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets – Budget and Actual (Cash Basis)	28
Other Supplementary Information:	
Exhibit 1 - Net Patient Service Revenue	29
Exhibit 2 - Other Operating Revenue	30
Exhibit 3 - Departmental Expenses	31
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts	32
Exhibit 5 - Inventories / Prepaid Expenses	33
Exhibit 6 - Financial Statistical Highlights	34
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	35 – 36
Schedule of Findings and Questioned Costs	37 – 39

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

OFFICIALS

June 30, 2005

<u>Board of Trustees</u>	<u>Address</u>	<u>Term Expires</u>
Mike Sharar, Chairman	Storm Lake, IA	2006
Glen Huntington, Vice-Chairman	Storm Lake, IA	2006
Lyle Rachuy, Secretary	Storm Lake, IA	2010
Robert Thompson, Treasurer	Storm Lake, IA	2006
Edean Murray	Storm Lake, IA	2008
Kim Martin	Storm Lake, IA	2008
Keith Movall	Newell, IA	2010

Hospital Officials

Todd Hudspeth, CEO	Storm Lake, IA
Mike Dewerff, CFO	Storm Lake, IA



SEIM
JOHNSON
SESTAK &
QUIST, LLP

Independent Auditor's Report

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Roger E. Howard, CPA
Roger E. Thompson, CPA
Tom H. Schnack, CPA
Daniel L. Hassel, CPA
Dennis K. Grindle, CPA
Dennis R. Hein, CPA
Brent T. Frieauf, CPA
Barbara J. Fajen, CPA
Brian D. Green, CPA

To the Board of Trustees of
Buena Vista Regional Medical Center
Storm Lake, Iowa:

We have audited the accompanying basic financial statements of BUENA VISTA REGIONAL MEDICAL CENTER (Hospital), as of and for the year ended June 30, 2005, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital for the year ended June 30, 2004, before they were restated for the matters discussed in Note 16 to the financial statements, were audited by other auditors whose report, dated September 10, 2004, expressed a qualified opinion for the effects of exclusion of a component unit on those statements.

We conducted our audit 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 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 audit provides 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 Buena Vista Regional Medical Center as of June 30, 2005, and the respective changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 16 that were applied to restate the 2004 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with Government Auditing Standards, we have also issued our report dated September 16, 2005, on our consideration of the Hospital's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the 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.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 10 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
September 16, 2005.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

This section of Buena Vista Regional Medical Center's (BVRMC) annual financial report presents background information and management's analysis of BVRMC's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the financial statements in this report, which follow.

Financial Highlights

- BVRMC's total assets increased by approximately \$727,000 or 2.2%, primarily due to the financial results for the year ended June 30, 2005.
- During the year, BVRMC's total operating revenues decreased approximately \$227,000 to \$23,256,000, or 1.0%, from the prior year while expenses increased \$702,000, or 3.1%, to \$23,505,200. BVRMC had loss from operations of \$249,200 which is 1.1% of total operating revenue. This compares to the prior fiscal year's income from operations of approximately \$679,700.
- BVRMC received \$349,500 in County tax subsidies during the year that were used to fund the expense of operating 5 ambulances located in Storm Lake, Sioux Rapids, and Albert City.
- During the fiscal year, BVRMC made capital investments for a total of approximately \$1,270,300. The following is a list of significant items:

Capital Investments	Department	2005 Cost
Cafeteria Remodeling	Nutrition Services	\$227,000
Facility Remodeling	Various	\$183,000
Communication and Computer Hardware and Software	Various	\$130,000
Surgery equipment	Surgery	\$85,000
Sleep Study equipment	Sleep Studies	\$72,000
Radiology equipment	Radiology	\$46,000

The source of the funding for these projects was derived from operations, capital reserves, and Foundation fund-raising.

Required Financial Statements

The basic financial statements of BVRMC report information about BVMRC using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities.

- The Balance Sheets include all of BVRMC's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to BVRMC creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of BVRMC, and assessing the liquidity and financial flexibility of BVRMC.
- All of the current year's revenues and expenses are accounted for in the Statements of Revenue, Expenses, and Changes in Net Assets. This statement measures improvements in BVRMC's operations over the past 2 years and can be used to determine whether BVRMC has been able to recover all of its costs through its patient service revenue and other revenue sources.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

- The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about BVRMC's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of BVRMC

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about BVRMC's activities. These two statements report the net assets of BVRMC and changes in them. Increases or decreases in BVRMC's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in commercial insurance contracting should also be considered.

Net Assets

A summary of BVRMC's balance sheets are presented in Table 1 below:

Table 1: Condensed Balance Sheets

	<u>2005</u>	<u>2004</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Total current assets	\$ 10,583,100	10,826,100	(243,000)	(2.2)
Net capital assets	17,366,400	18,068,200	(701,800)	(3.9)
Other assets, including Funded Depreciation	<u>5,302,500</u>	<u>3,630,600</u>	<u>1,671,900</u>	46.1
Total assets	<u>\$ 33,252,000</u>	<u>32,524,900</u>	<u>727,100</u>	2.2
Current liabilities	<u>\$ 3,349,500</u>	<u>3,760,500</u>	<u>(411,000)</u>	(10.9)
Long-term debt	<u>1,011,900</u>	<u>1,258,100</u>	<u>(246,200)</u>	(19.6)
Total liabilities	<u>4,361,400</u>	<u>5,018,600</u>	<u>(657,200)</u>	(13.1)
Net assets	<u>28,890,600</u>	<u>27,506,300</u>	<u>1,384,300</u>	5.0
Total liabilities and net assets	<u>\$ 33,252,000</u>	<u>32,524,900</u>	<u>727,100</u>	2.2

As can be seen in Table 1, total assets increased by \$727,000 to \$33,252,000 in fiscal year 2005, up from \$32,525,000 in fiscal year 2004. The change in total net assets results primarily from operating results in the current year.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Summary of Revenue, Expenses, and Changes in Net Assets

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

Table 2: Condensed Statement of Revenue, Expenses, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Revenue:				
Net patient service revenue	\$ 22,268,000	22,710,300	(442,300)	(1.9)
Other	988,000	772,900	215,100	27.8
Net revenue	<u>23,256,000</u>	<u>23,483,200</u>	<u>(227,200)</u>	<u>(1.0)</u>
Expenses:				
Salaries and employee benefits	13,606,900	13,109,000	497,900	3.8
Professional fees	1,821,900	1,681,100	140,800	8.4
Supplies and other expenses	6,135,400	6,318,100	(182,700)	(2.9)
Depreciation and amortization	1,941,000	1,695,300	245,700	14.5
Total operating expenses	<u>23,505,200</u>	<u>22,803,500</u>	<u>701,700</u>	<u>3.1</u>
Operating income	(249,200)	679,700	(928,900)	(136.7)
Non-operating income	917,300	504,300	413,000	81.9
Net income	<u>668,100</u>	<u>1,184,000</u>	<u>(515,900)</u>	<u>(43.6)</u>
Capital grants and contributions	678,200	781,900	(103,700)	(13.3)
Operating results risk sharing	38,000	(128,300)	166,300	129.6
Net assets – beginning of year	<u>27,506,300</u>	<u>25,668,700</u>	<u>1,837,600</u>	<u>7.2</u>
Net assets – end of year	\$ 28,890,600	27,506,300	1,384,300	5.0

Sources of Revenue

Operating Revenue

During fiscal year 2005, BVRMC derived the majority, or 95.8%, of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in BVRMC's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes rental income, cafeteria sales, and other miscellaneous services.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Table 3 presents the relative percentages of gross charges billed for patient services, by payor, for the fiscal years ended June 30, 2005 and 2004.

Table 3: Payor Mix by Percentage:

	<u>2005</u>	<u>2004</u>
Medicare	54.8%	56.4%
Medicaid	7.2%	5.4%
Wellmark	21.9%	18.6%
Other Commercial	13.1%	16.9%
Self-pay and other	3.0%	2.7%
Total patient revenues	<u>100.0%</u>	<u>100.0%</u>

Other Revenue

Other revenue includes rental income, cafeteria sales, fitness center income and other miscellaneous services.

Table 4: Other Revenue

	<u>2005</u>	<u>2004</u>
Rental Income	\$ 236,100	221,200
Fitness Center	186,900	172,600
Rebates	102,200	74,800
Grants	97,100	73,500
Cafeteria/Vending	93,000	71,100
Contracted Services	34,400	32,100
Other	238,300	127,600
Total	<u>\$ 988,000</u>	<u>772,900</u>

Non-operating Income

Non-operating income includes investment income and county tax subsidies. BVRMC holds funds in its balance sheets that are invested primarily in money market funds, CD's, and securities issued by the U.S. Treasury and other federal agencies. These investments earned \$225,600 during fiscal year 2005. BVRMC also received \$349,500 in county tax subsidy in fiscal year 2005.

Operating and Financial Performance

The following summarizes BVRMC's statements of revenue, expenses, and changes in net assets between 2005 and 2004:

Overall activity at BVRMC, as measured by patient admissions, decreased by 2.9% to 2,077 admissions in 2005, from 2,138 admissions in 2004. Patient days decreased 6.9% from 9,647 in 2004 to 8,986 in 2005. Total outpatient visits increased from 23,843 in 2004, to 25,006 in 2005, or 4.9%.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Table 5: Patient and Hospital Statistical Data

	<u>2005</u>	<u>2004</u>
Total Admissions:		
Acute	1,346	1,376
Newborn	299	271
Swing Bed	211	271
Hope Harbor	221	220
Total Days Care		
Acute	4,163	4,494
Newborn	624	557
Swing Bed	1,687	1,832
Hope Harbor	2,512	2,764
Average Daily Census		
Acute	11.3	12.3
Newborn	1.7	1.5
Swing Bed	4.6	5.0
Hope Harbor	6.9	7.6
Average Length of Stay		
Acute	3.1	3.3
Newborn	2.1	2.1
Swing Bed	8.1	6.8
Hope Harbor	11.4	12.6
Outpatient Visits	25,006	23,843
Emergency Room Visits	7,132	7,301
Total Surgical Procedures	2,113	2,253
Total Radiology Procedures	14,681	14,181
Total Laboratory Procedures	73,899	71,979
Home Health Visits	5,097	6,942
Full-time equivalents (FTE's)	284.2	281.6

Total net patient service revenue decreased \$442,300 or 1.9% in 2005.

Decreases in net patient service revenue primarily are due to volume decreases in acute and swing bed patient days as depicted above in Table 5 Patient and Hospital Statistical Data. While gross patient revenue increased \$250,900, or .7% from prior year primarily due to increased outpatient volume and rate increases, net patient service revenue decreased \$442,300 due to increases in contractual allowances.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Allowances increased over prior year as described in the table below:

Table 6: Allowance Summary

	2005	2004
Medicare	\$ 10,040,800	9,873,600
Medicaid	1,538,200	1,113,500
Wellmark and other commercial	1,882,100	1,875,000
Provision for bad debts	561,700	553,200
Other Adjustments and charity care	241,400	155,700
 Total	 \$ 14,264,200	 13,571,000

Days in accounts receivable decreased from 53.4 days in fiscal year 2004 to 48.2 days in fiscal year 2005.

Salary expenses increased \$249,600 or 2.4% to \$10,758,200 in 2005 from \$10,508,600 in 2004. As a percentage of net patient service revenue, salary expense was 48.3% and 46.3% for the fiscal years ended June 2005 and 2004, respectively.

Employee benefit expense increased \$248,400, or 9.6% from prior year. Employee benefit expense represented 26.5% and 24.7% of salary expenses in fiscal years 2005 and 2004 respectively.

Supplies and other expense decreased \$182,700, or 2.9% from prior year. As a percentage of net patient service revenue, supplies expense decreased slightly to 27.6% from 27.8% for fiscal years ended June 2005 and 2004, respectively.

Professional fees and Purchased services increased \$140,800, or 8.4% from prior year primarily due to increased temporary physician coverage.

Depreciation increased \$245,700 or 14.5% from \$1,695,300 in 2004, to \$1,941,000 in 2005. This increase is primarily due a full year of depreciation on the construction project.

Total operating expenses increased by \$701,700, or 3.1%, for the year ended June 30, 2005 for the reasons discussed above.

Budgetary Highlights

The official county budget of BVRMC for the year ended June 30, 2005 was prepared on a modified accrual basis. BVRMC expenditures during 2005 and 2004 did not exceed amounts budgeted.

Actual expenditures were lower than the budget by \$2,705,900 due to lower than anticipated operating expenses. Actual revenues were also lower than budgeted by \$1,304,600.

Capital Assets

During fiscal year 2005, BVRMC invested \$1,270,300 in a broad range of capital assets included in Table 7 below.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2005 and 2004

Table 7: Capital Assets

	<u>2005</u>	<u>2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land and Land Improvements	\$ 1,186,400	1,123,300	63,100	5.6%
Buildings and Fixed Equipment	23,991,400	23,534,000	457,400	1.9%
Major Movable Equipment	9,391,000	9,778,200	(387,200)	(4.0%)
Subtotal	34,568,800	34,435,500	133,300	.4%
Less: Accumulated Depreciation	17,271,100	16,549,800	721,300	4.4%
Net Property, Plant, and Equipment	17,297,700	17,885,700	(588,000)	(3.3%)
Construction in Progress	68,600	182,400	(113,800)	(62.4%)

Net property, plant, and equipment has decreased as a result of annual depreciation expense exceeding the cost of new additions. BVRMC has enhanced existing facilities, equipment, and upgraded surgery, sleep study, radiology, and computer equipment.

In Table 8, BVRMC's fiscal year 2006 capital budget projects spending up to \$1,064,000 for capital projects. These projects will be financed through internal reserves. More information about BVRMC's capital assets is presented in the notes to the basic financial statements.

Table 8: Fiscal Year 2006 Capital Budget

Computer Hardware and Software	\$ 273,300
Radiology Equipment	232,400
Dictation Equipment	100,000
Physical Therapy Spinal Equipment	90,000
All other Capital Additions	<u>368,300</u>
 Total	 <u>\$ 1,064,000</u>

Long-Term Debt (including Capital Leases)

At year end, BVRMC had \$1,258,000 in short-term and long-term debt. This has decreased \$238,500 from fiscal year 2004, as a result of payments on the capital lease. More detailed information about BVRMC's long-term liabilities is presented in the notes to the basic financial statements. Total debt outstanding represents approximately 3.8% of BVRMC's total assets at June 30, 2005.

Contacting BVRMC's Chief Financial Officer

This financial report is designed to provide our citizens, customers, and creditors with a general overview of BVRMC's finances and to demonstrate BVRMC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

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BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Balance Sheets
June 30, 2005 and 2004

ASSETS	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents	\$ 3,053,478	3,791,328
Investments	2,643,199	1,692,964
Receivables -		
Patient, net of allowance for doubtful accounts of \$452,000 in 2005 and \$429,000 in 2004	3,058,824	3,321,827
Other	227,399	266,498
Due from affiliate	38,019	--
Inventories	704,565	692,144
Prepaid expenses	153,782	129,180
Succeeding year property tax receivable	337,774	336,800
Internally designated assets	<u>366,063</u>	<u>595,315</u>
Total current assets	<u>10,583,103</u>	<u>10,826,056</u>
Assets limited as to use or restricted:		
Internally designated assets	5,567,131	4,113,006
Restricted funds	<u>101,417</u>	<u>90,691</u>
	5,668,548	4,203,697
Less amount required to meet current obligations	<u>366,063</u>	<u>595,315</u>
Total assets limited as to use, net of current portion	<u>5,302,485</u>	<u>3,608,382</u>
Capital assets, net	<u>17,366,376</u>	<u>18,068,235</u>
Deferred costs	<u>--</u>	<u>21,020</u>
Other assets, net	<u>--</u>	<u>1,170</u>
Total assets	<u>\$ 33,251,964</u>	<u>32,524,863</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of capital lease obligations	\$ 246,074	238,500
Accounts payable	714,814	748,974
Accrued employee compensation	953,920	1,307,026
Accrued health insurance	194,335	162,103
Payroll taxes withheld and accrued	246,394	64,594
Estimated third-party payor settlements	656,173	748,000
Due to affiliate	--	154,526
Deferred revenue for succeeding year property tax receivable	<u>337,774</u>	<u>336,800</u>
Total current liabilities	3,349,484	3,760,523
Long-term liabilities:		
Capital lease obligations, net of current portion	<u>1,011,928</u>	<u>1,258,026</u>
Total liabilities	<u>4,361,412</u>	<u>5,018,549</u>
Net assets:		
Invested in capital assets, net of related debt	16,108,374	16,571,709
Restricted	101,417	90,691
Unrestricted	<u>12,680,761</u>	<u>10,843,914</u>
Total net assets	<u>28,890,552</u>	<u>27,506,314</u>
Total liabilities and net assets	<u>\$ 33,251,964</u>	<u>32,524,863</u>

See notes to the financial statements

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 22,829,717	23,263,526
Provision for bad debt	<u>(561,672)</u>	<u>(553,190)</u>
Net patient and service revenue	22,268,045	22,710,336
Other operating revenue	<u>988,007</u>	<u>772,850</u>
Total operating revenue	<u>23,256,052</u>	<u>23,483,186</u>
OPERATING EXPENSES:		
Salaries	10,758,202	10,508,555
Employee benefits	2,848,742	2,600,391
Purchased services and professional fees	1,821,886	1,681,088
Supplies	4,294,972	4,653,771
Other expenses	1,797,133	1,640,701
Depreciation and amortization	1,941,001	1,695,342
Interest	<u>43,300</u>	<u>23,647</u>
Total operating expenses	<u>23,505,236</u>	<u>22,803,495</u>
OPERATING INCOME (LOSS)	<u>(249,184)</u>	<u>679,691</u>
NONOPERATING REVENUES, NET:		
County tax revenues	349,475	349,010
Investment income	225,551	146,516
Noncapital grants and contributions	55,836	--
Gain on disposal of capital assets	<u>286,389</u>	<u>8,746</u>
Nonoperating revenues, net	<u>917,251</u>	<u>504,272</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	668,067	1,183,963
CAPITAL GRANTS AND CONTRIBUTIONS	678,152	781,945
OPERATING RESULTS RISK SHARING	<u>38,019</u>	<u>(128,338)</u>
INCREASE IN NET ASSETS	1,384,238	1,837,570
NET ASSETS, beginning of year as restated	<u>27,506,314</u>	<u>25,668,744</u>
NET ASSETS, end of year	<u>\$ 28,890,552</u>	<u>27,506,314</u>

See notes to financial statements

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 22,439,221	23,214,323
Cash paid to employees for salaries and benefits	(12,665,202)	(13,163,999)
Cash paid to suppliers and contractors	(8,919,987)	(8,902,468)
Other receipts and payments, net	<u>834,561</u>	<u>845,714</u>
Net cash provided by operating activities	<u>1,688,593</u>	<u>1,993,570</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	349,475	349,010
Operating results risk sharing	38,019	(128,338)
Noncapital grants and contributions	<u>55,836</u>	<u>--</u>
Net cash provided by noncapital financing activities	<u>443,330</u>	<u>220,672</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions	678,152	781,945
Proceeds from capital lease obligation	--	1,613,791
Payments on capital lease obligations	(238,524)	(712,988)
Interest paid	(43,300)	(23,647)
Proceeds from the sale of property and equipment	337,340	24,371
Purchase of property and equipment, net	<u>(1,413,906)</u>	<u>(4,213,294)</u>
Net cash used in capital and related financing activities	<u>(680,238)</u>	<u>(2,529,822)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	225,551	146,516
Deposits to investments, net	(950,235)	(728,520)
Withdrawals from (deposits to) assets limited as to use or restricted, net	<u>(1,464,851)</u>	<u>566,927</u>
Net cash used in investing activities	<u>(2,189,535)</u>	<u>(15,077)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(737,850)	(330,657)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>3,791,328</u>	<u>4,121,985</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 3,053,478</u>	<u>3,791,328</u>

See notes to financial statements

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (249,184)	679,691
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -		
Depreciation and amortization	1,941,001	1,695,342
Interest expense included in operating expenses	43,300	23,647
(Increase) decrease in current assets -		
Receivables -		
Patients	263,003	(84,203)
Other	39,099	164,272
Due from affiliate	(38,019)	--
Inventories	(12,421)	(81,338)
Prepaid expenses	(24,603)	(41,226)
Increase (decrease) in current liabilities -		
Accounts payable	111,845	(251,154)
Accrued salaries, vacation and payroll taxes payable	(171,307)	(124,566)
Accrued health insurance	32,232	69,513
Due to affiliate	(154,526)	(91,408)
Estimated third-party payor settlements	<u>(91,827)</u>	<u>35,000</u>
Net cash provided by operating activities	\$ <u>1,688,593</u>	<u>1,993,570</u>

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Notes to Financial Statements

June 30, 2005 and 2004

(1) Organization and Summary of Significant Accounting Policies

Buena Vista Regional Medical Center (the Hospital) is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Iowa Code and is governed by a seven member board of trustees elected for six year terms.

The following is a summary of significant accounting policies of Buena Vista Regional Medical Center (the Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

For financial reporting purposes, Buena Vista Regional Medical Center has included all the funds of the Hospital, specifically all assets, liabilities, revenue, and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital 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 Hospital are such that exclusion would cause the Hospital'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 Hospital 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 Hospital. Buena Vista Regional Medical Center has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The balance sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted, expendable for capital acquisitions" or "invested in capital assets, net of related debt," above.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. *Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

G. *Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Property Tax Levy*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

I. *Assets Limited as to Use or Restricted*

By Board of Trustees – Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

By Donor – These funds consist of contributed assets that have been restricted by the donor for specific capital improvements or operating activities.

J. *Capital Assets*

Capital asset acquisitions in excess of \$2,500 are capitalized and recorded at cost. Capital assets donated for the Hospital's operations are recorded at their estimated fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 to 20 years
Buildings and building improvements	3 to 40 years
Equipment, computers, and furniture	3 to 20 years

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire capital assets are reported as capital grants and contributions.

K. *Compensated Absences*

Hospital employees accumulate a limited amount of earned but unused Paid Time Off (PTO) hours for subsequent use or for payment upon termination, death, or retirement and may be carried forward by an employee at a maximum amount ranging from 252 hours to 372 hours based on length of service. PTO expense is accrued as an expense and a liability as it is earned. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005 and 2004.

L. *Deferred Revenue*

Although certain revenue are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

M. *Net Patient Service Revenue*

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge or per ambulatory payment classification, discounted charges, and per diem payments. The Hospital has agreements with third-party payors who provide payment based on fee schedule amounts. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

N. *Grants and Contributions*

From time to time, the Hospital receives contributions from Buena Vista Regional Medical Center Foundation, as well as grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

O. *Operating Revenue and Expenses*

The Hospital's statement of revenue, expenses and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with the provision of health care services – the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

P. *Charity Care*

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of these amounts determined to qualify as charity care, they are not reported in the statements of operations. Charges excluded from revenue under the Hospital's charity care policy were \$241,396 and \$155,668 for 2005 and 2004, respectively.

Q. *Impairment of Long-Lived Assets*

The Hospital evaluates the recoverability of its long-lived assets, primarily fixed assets, in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144) "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets.

R. *Insurance*

The Hospital is commercially insured for property and casualty, general and professional liability and worker's compensation risks. The Hospital is self-insured under its employee group health program. Claims are charged to expense in the period in which they are incurred.

S. *Reclassifications*

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 reporting format.

(2) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient psychiatric care services rendered to Medicare program beneficiaries are reimbursed based on allowable operating expenses at the lower of reasonable cost or charges subject to target rate limitations imposed by the Tax Equity and Fiscal Responsibility Act (TEFRA). Outpatient services are paid based on ambulatory payment classifications subject to a hold harmless provision through January 1, 2006 or fee schedule amounts. Homecare services are paid at prospectively determined rates per episode of care. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2003.

Medicaid. Inpatient acute services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a percentage rate representing the average ratio of cost to charges. Other outpatient services related to Medicaid beneficiaries are paid based on fee schedule amounts.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 54.8% and 7.2%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2005, and 56.4% and 5.4%, respectively, for the year ended June 30, 2004. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(3) Bank Deposits and Investments

The Hospital's deposits in banks at June 30, 2005 and 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital 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 Board of Trustees; 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.

(4) Unrestricted Investments

Cash deposits and investments unrestricted as of June 30, 2005 and 2004, are summarized as follows:

	<u>2005</u>	<u>2004</u>
Unrestricted Assets:		
Cash and cash equivalents	\$ 56,148	55,464
Certificates of deposit	2,565,717	1,632,469
Interest receivable	<u>21,334</u>	<u>5,031</u>
	<u>\$ 2,643,199</u>	<u>1,692,964</u>

Interest Rate Risk: The Hospital has a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. The weighted average duration of securities held in certificates of deposit as of June 30, 2005 was 1.3 months.

(5) Assets Limited as to Use or Restricted

By Board – Cash deposits and investments designated by the Board for future capital improvements, as of June 30, 2005 and 2004, are summarized as follows:

	<u>2005</u>	<u>2004</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 1,728,253	1,832,190
Certificates of deposit	3,315,404	2,142,605
US government agencies	479,020	123,726
Interest receivable	<u>44,454</u>	<u>14,485</u>
	<u>\$ 5,567,131</u>	<u>4,113,006</u>

Interest Rate Risk: The Hospital has a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. The weighted average duration of securities held in certificates of deposit was 3.9 months and 63.1 months for US government agencies as of June 30, 2005.

By Donor – Cash deposits designated by the donor for future capital improvements and operations, as of June 30, 2005 and 2004, are summarized as follows:

	<u>2005</u>	<u>2004</u>
Restricted Assets:		
Cash and cash equivalents	\$ <u>101,417</u>	<u>90,691</u>

(6) Composition of Patient Receivables

Patient receivables as of June 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Patient accounts	\$ 4,825,824	5,297,827
Less estimated third-party contractual adjustments	(1,315,000)	(1,547,000)
Less allowance for doubtful accounts	<u>(452,000)</u>	<u>(429,000)</u>
	<u>\$ 3,058,824</u>	<u>3,321,827</u>

The Hospital grants credits without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2005</u>	<u>2004</u>
Medicare	41%	45%
Medicaid	5	5
Commercial insurance	29	27
Patients and residents	<u>25</u>	<u>23</u>
	<u>100%</u>	<u>100%</u>

(7) Capital Assets

Capital assets and the related accumulated depreciation are summarized as follows:

	June 30, 2004	Additions	Transfers and Disposals	June 30, 2005
Capital assets, not being depreciated,				
Land	\$ 513,028	--	--	513,028
Construction in progress	182,427	113,827	(227,654)	68,600
	<u>695,455</u>	<u>113,827</u>	<u>(227,654)</u>	<u>581,628</u>
Capital assets, being depreciated:				
Land improvements	610,315	63,080	--	673,395
Buildings	20,998,373	269,076	(10,395)	21,257,054
Fixed equipment	2,535,672	200,149	(1,429)	2,734,392
Major movable equipment	9,778,176	851,854	(1,238,977)	9,391,053
Total capital assets, being depreciated	<u>33,922,536</u>	<u>1,384,159</u>	<u>(1,250,801)</u>	<u>34,055,894</u>
Less accumulated depreciation:				
Land improvements	(334,941)	(40,601)	173	(375,369)
Buildings	(7,943,206)	(859,565)	9,717	(8,793,054)
Fixed equipment	(734,038)	(364,718)	524	(1,098,232)
Major movable equipment	(7,537,571)	(654,959)	1,188,039	(7,004,491)
Total accumulated depreciation	<u>(16,549,756)</u>	<u>(1,919,843)</u>	<u>1,198,453</u>	<u>(17,271,146)</u>
Total capital assets, being depreciated, net	<u>17,372,780</u>	<u>(535,684)</u>	<u>(52,348)</u>	<u>16,784,748</u>
Total capital assets, net	<u>\$ 18,068,235</u>	<u>(421,857)</u>	<u>(280,002)</u>	<u>17,366,376</u>
	June 30, 2003	Additions	Transfers and Disposals	June 30, 2004
Capital assets, not being depreciated,				
Land	513,028	--	--	513,028
Construction in progress	\$ 4,720,776	1,915,438	(6,453,787)	182,427
	<u>5,233,804</u>	<u>1,915,438</u>	<u>(6,453,787)</u>	<u>695,455</u>
Capital assets, being depreciated:				
Land improvements	587,843	56,111	(33,639)	610,315
Buildings	14,614,905	6,399,344	(15,876)	20,998,373
Fixed equipment	924,046	1,612,657	(1,031)	2,535,672
Major movable equipment	9,278,313	704,902	(205,039)	9,778,176
Total capital assets, being depreciated	<u>25,405,107</u>	<u>8,773,014</u>	<u>(255,585)</u>	<u>33,922,536</u>
Less accumulated depreciation:				
Land improvements	(327,868)	(40,711)	33,638	(334,941)
Buildings	(7,297,842)	(659,834)	14,470	(7,943,206)
Fixed equipment	(532,702)	(201,585)	249	(734,038)
Major movable equipment	(6,957,224)	(771,781)	191,434	(7,537,571)
Total accumulated depreciation	<u>(15,115,636)</u>	<u>(1,673,911)</u>	<u>239,791</u>	<u>(16,549,756)</u>
Total capital assets, being depreciated, net	<u>10,289,471</u>	<u>7,099,103</u>	<u>(15,794)</u>	<u>17,372,780</u>
Total capital assets, net	<u>\$ 15,523,275</u>	<u>9,014,541</u>	<u>(6,469,581)</u>	<u>18,068,235</u>

Total depreciation for the year ended June 30, 2005 and 2004, including depreciation on rental property owned by the Hospital, was \$1,919,980 and \$1,674,321, respectively. Total accumulated depreciation on the rental property was \$39,425 at June 30, 2004 and was disposed of as of June 30, 2005.

(8) Capital Lease Obligations

Capital lease obligations activity of the Hospital as of June 30, 2005 and 2004 consisted of the following:

	<u>June 30, 2004</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Defeased</u>	<u>June 30, 2005</u>	<u>Due Within One Year</u>
Capital Lease Obligation (A)	\$ 1,496,526	--	(238,524)	--	1,258,002	246,074

	<u>June 30, 2003</u>	<u>Borrowings</u>	<u>Payments</u>	<u>Defeased</u>	<u>June 30, 2004</u>	<u>Due Within One Year</u>
Capital Lease Obligation	\$ 595,723	1,613,791	(712,988)	--	1,496,526	238,500

(A) Capital lease obligation at 3.12% interest, payable in monthly installments of \$23,485 through April 2010, collateralized by leased equipment.

Scheduled principal and interest repayments on the capital lease obligation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 246,074	35,750	281,824
2007	253,862	27,962	281,824
2008	261,896	19,928	281,824
2009	270,185	11,639	281,824
2010	225,985	3,178	229,163
	<u>\$ 1,258,002</u>	<u>98,457</u>	<u>1,356,459</u>

Assets recorded under capital leases consist of fixed and major moveable equipment items and building components with totals as follows:

	<u>2005</u>	<u>2004</u>
Cost	\$ 1,580,666	1,580,666
Less: Accumulated amortization	<u>(464,623)</u>	<u>(154,874)</u>
Net book value	<u>\$ 1,116,043</u>	<u>1,425,792</u>

(9) Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2005 and 2004 were approximately \$602,000 and \$582,000, respectively.

(10) Affiliated Organization

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salaries and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Until January 1, 2005, the Hospital was in an agreement with Iowa Health Systems (IHS) with similar stipulations to the Trinity agreement in addition to sharing the results of operations of the Hospital based predetermined percentages of the operating income or loss of the Hospital, as defined in the agreement. Below is a list of year end balances and transactions between the Hospital and these affiliates for the years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Receivable from (payable to) affiliate	\$ 38,019	(154,526)
Fees to affiliate for personnel and services	(162,853)	(192,261)
Operating results risk sharing	38,019	(128,338)

(11) Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore, no related liability has been accrued. The Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the three years ended June 30, 2005.

(12) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

(13) Geriatric Behavioral Health Unit

The Hospital contracted with Sunstone Behavioral Health (SBH) to obtain management services for its Geriatric Behavioral Health Unit. The agreement began July 1, 2002 and was terminated subsequent to year end effective October 1, 2005. It is renewable for successive one year periods thereafter. Under the terms of the agreement, the Hospital has agreed to pay SBH a monthly fee ranging from \$25,000 during the year ended June 30, 2003 to \$27,333 during the year ending June 30, 2006. In exchange for this fee, SBH will provide a program director, a medical director, other contracted professional personnel, staff training, and will participate in marketing efforts.

(14) Foundation

Buena Vista Regional Medical Center Foundation (Foundation) was established to raise funds exclusively for the benefit of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB Statement 39.

A summary of the Foundation's assets, liabilities and fund balance, based on a modified cash basis, as of June 30, 2005 and 2004 follows:

	(Unaudited)	
	2005	2004
Assets	\$ 761,337	1,266,814
Net assets	\$ 616,824	633,895

The Hospital received \$641,499 and \$716,903 from the Foundation during the years ended June 30, 2005 and 2004, respectively, for the purchase of property and equipment. The Hospital also received \$49,502 and \$5,462 from the Foundation for minor equipment during the years ended June 30, 2005 and 2004. As of June 30, 2005, the Foundation has approximately \$28,678 of pledges receivable related to the Hospital's project.

(15) Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claim in excess of the limits. At June 30, 2005 and 2004, the Hospital has accumulated funds in excess of actual claims paid of \$18,160 and \$48,905, respectively. These funds, shown under cash, are to be used to pay claim as they are filed in the future. The amount of unpaid claims at June 30, 2005 and 2004 was \$194,335 and \$162,103, respectively.

(16) Restatement of 2004 Financial Statements

Certain restatements were made to the financial statements for the year ended June 30, 2004 to reflect the recording of a loss on the disposal of an asset, accrual of incurred but not recorded health insurance claims, accrual of the employer's portion of benefits on accrued PTO and an understatement of inventory. The restatements had the following effects on the financial statements for the year ended June 30, 2004:

	<u>As Originally Reported</u>	<u>Restatement</u>	<u>Restated Totals</u>
Decrease in beginning unrestricted net assets	\$ 26,041,309	(372,565)	25,668,744
Employee benefits expense	2,678,096	69,513	2,747,609
Decrease in ending unrestricted net assets	27,948,392	(442,078)	27,506,314

(18) Subsequent Events

The Hospital has applied to CMS to be designated as a Critical Access Hospital (CAH). A CAH is an acute care facility that provides outpatient emergency and inpatient services and is reimbursed on a reasonable cost basis for inpatient and outpatient services provided to Medicare beneficiaries.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets
Budget and Actual (Cash Basis)

Required Supplementary Information

For the Year Ended June 30, 2005

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 349,475	--	349,475	336,784	12,691
Estimated other revenues / receipts	24,539,999	68,681	24,608,680	25,913,300	(1,304,620)
Expenses / Disbursements	<u>23,505,236</u>	<u>(224,317)</u>	<u>23,280,919</u>	<u>25,986,825</u>	<u>2,705,906</u>
Net	1,384,238	292,998	1,677,236	263,259	<u>\$ 1,413,977</u>
Balance beginning of year	<u>27,506,314</u>	<u>(17,818,325)</u>	<u>9,687,989</u>	<u>9,687,989</u>	
Balance end of year	<u>\$ 28,890,552</u>	<u>(17,525,327)</u>	<u>11,365,225</u>	<u>9,951,248</u>	

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Schedules of Net Patient Service Revenue
For the Years Ended June 30, 2005 and 2004

	2005					2004							
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	
DAILY PATIENT SERVICES:													
Medical and surgical	1,366,206	155,460	-	-	107,020	1,628,686	1,445,406	137,307	-	-	37,421	1,620,134	
Obstetric	1,006,861	-	-	-	-	1,006,861	850,611	-	-	-	-	850,611	
Behavioral health	-	-	-	2,260,250	-	2,260,250	-	-	-	2,484,288	-	2,484,288	
Swing Bed	-	-	300,542	-	-	300,542	-	-	394,576	-	-	394,576	
Coronary care	430,563	-	-	-	-	430,563	454,181	-	-	-	-	454,181	
Nursery	-	-	-	-	-	-	-	-	-	-	-	-	
Hospice	-	-	-	-	331,767	331,767	2,750,198	137,307	394,576	2,484,288	292,134	292,134	
2,803,630	155,460	300,542	2,260,250	438,787	5,958,669	2,750,198	137,307	394,576	2,484,288	329,555	6,095,924		
OTHER NURSING SERVICES:													
Maternal child care	-	9,626	-	-	-	9,626	-	10,067	-	-	-	10,067	
Operating and recovery room	909,013	2,674,320	5,946	-	-	3,589,279	1,073,244	3,314,043	-	-	-	4,387,287	
Delivery and labor room	-	101,124	-	-	-	101,124	3,156	81,787	-	-	-	84,943	
Medical and surgical supplies	160,427	345,268	9,174	256	3,597	518,722	302,386	378,014	14,197	504	714	695,815	
Emergency services	293,370	1,239,572	140	1,910	685	1,535,677	277,303	1,107,863	2,105	1,550	320	1,389,141	
Outpatient service	81,575	1,470,071	6,239	4,582	1,170	1,563,637	92,468	1,364,461	16,050	5,700	725	1,479,404	
Homecare	-	243,242	-	-	-	243,242	-	254,369	-	-	-	254,369	
Private duty nursing	-	36,105	-	-	-	36,105	-	27,666	-	-	-	27,666	
Substance abuse	-	52,809	-	-	-	52,809	-	65,739	-	-	-	65,739	
Cardiac Rehabilitation	-	115,466	560	-	-	116,026	-	107,468	-	-	-	107,468	
1,444,385	6,287,603	22,059	6,748	5,452	7,766,247	1,748,557	6,711,477	32,352	7,754	1,759	8,501,899		
OTHER PROFESSIONAL SERVICES:													
Anesthesiology	98,121	355,396	210	-	-	453,727	84,690	412,565	-	-	-	497,255	
Radiology	105,726	1,257,840	9,627	9,226	357	1,382,776	110,075	984,824	14,595	10,551	226	1,120,271	
Ultrasound	113,240	758,109	6,055	645	370	878,419	154,160	687,329	8,755	-	-	850,244	
Nuclear medicine	51,960	1,298,555	1,050	-	-	1,351,565	66,520	1,076,835	2,410	3,470	-	1,149,235	
CT scans	178,695	1,204,150	650	2,600	-	1,386,095	178,750	987,821	600	6,000	-	1,173,271	
Dialysis	275	107,020	-	-	-	107,295	2,940	611,005	-	-	-	613,545	
Laboratory	633,438	1,571,556	66,570	161,142	1,760	2,434,466	616,697	1,389,394	93,091	131,537	1,979	2,232,698	
Blood administration	65,707	99,869	2,820	889	578	169,863	75,522	53,273	3,430	-	731	132,956	
Pharmacy	1,519,397	5,862,427	258,955	384,810	108,776	8,134,365	1,613,115	6,001,789	502,683	377,297	80,517	8,575,401	
Electrocardiology	123,656	353,977	2,352	5,463	105	485,553	125,261	287,772	3,267	9,027	110	425,437	
Electroencephalography	4,585	422,145	2,100	-	-	428,830	2,277	212,083	-	-	-	214,360	
Physical therapy	69,221	1,245,080	118,581	29,951	1,836	1,464,669	68,580	645,312	118,644	16,489	-	849,025	
Respiratory therapy	1,089,976	48,498	335,550	42,790	19,910	1,536,724	1,042,820	36,726	483,402	27,815	11,325	1,582,088	
Ambulance	206,512	460,814	9,704	2,200	995	680,225	201,730	423,053	9,905	1,246	2,310	638,244	
ER Physicians	114,605	761,691	64,401	1,270	420	877,986	113,630	890,170	1,770	863	250	174,047	
Cardiovascular	7,465	189,425	805	-	-	197,695	7,521	162,595	3,068	863	-	312,724	
Occupational therapy	17,812	342,029	64,401	968	-	425,210	25,763	219,936	66,075	950	-	32,942	
Speech therapy	4,832	13,564	7,947	1,380	-	27,723	9,556	13,708	6,437	3,241	-	27,440	
Oncology	5,179	323,649	-	-	-	328,828	1,910	272,500	-	-	-	274,410	
Dietary	2,125	9,001	-	-	-	11,126	2,275	9,591	-	-	-	11,866	
Diabetic education	-	44,049	126	-	-	44,175	300	47,408	-	-	-	47,708	
4,412,527	16,728,844	887,503	643,334	135,107	22,807,315	4,503,692	15,225,789	1,266,362	590,256	97,448	21,693,547		
8,660,542	23,171,907	1,210,104	2,910,332	579,346	36,532,231	9,002,447	22,074,573	1,693,290	3,082,298	428,762	36,281,370		
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE													
Contractual allowances and other deductions, primarily Medicare and Medicaid						(13,461,118)						(12,862,176)	
Charity care services						(241,396)						(155,668)	
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT						22,829,717						23,263,526	
Provision for bad debt						(561,672)						(563,190)	
NET PATIENT SERVICE REVENUE						\$ 22,268,045						22,710,336	

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Other Operating Revenue
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Rental income	\$ 236,144	221,228
Fitness center	186,879	172,552
Purchasing rebates	102,158	74,834
Grants	97,097	73,461
Cafeteria	64,929	60,919
Vending machines	28,029	10,190
School nurse	42,006	31,648
Lifeline	37,330	31,180
Contracted revenue	35,740	35,658
Meals on wheels	30,201	23,115
Coffee shop	28,782	--
Miscellaneous	<u>98,712</u>	<u>38,065</u>
	<u>\$ 988,007</u>	<u>772,850</u>

BUENA VISTA REGIONAL MEDICAL CENTER Storm Lake, Iowa

Departmental Expenses For the Years Ended June 30, 2005 and 2004

	2005				2004			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Nursing Administration	99,500	-	63,809	163,309	141,776	-	41,049	182,825
Medical and Surgical	1,219,919	-	405,812	1,625,731	1,241,861	-	384,374	1,642,235
Obstetric	451,401	460	173,956	625,819	425,824	440	154,308	580,572
Behavioral Health	578,999	321,858	187,974	1,088,831	593,567	309,330	182,961	1,085,858
Coronary Care	293,233	-	99,228	392,461	289,084	-	94,044	383,128
Hospice	129,312	-	50,495	187,575	104,741	7,450	51,897	164,088
Maternal Child Care	90,526	-	27,004	117,530	79,344	-	24,552	103,896
Operating and Recovery Room	360,677	22,560	456,736	839,973	372,540	26,561	560,814	959,915
Medical and Surgical Supplies	42,307	-	287,631	329,938	51,191	-	419,867	471,058
Emergency Services	369,994	-	149,401	519,395	369,331	-	141,059	510,390
Outpatient Services	258,311	628	266,506	525,445	294,846	-	236,521	531,367
Homecare	50,841	-	21,096	71,937	26,981	383	104,175	309,404
Private Duty Nurses	50,841	-	21,096	71,937	26,981	-	10,470	37,451
Substance Abuse	60,524	1,015	20,337	81,876	79,004	400	24,225	103,629
Cardiac Rehabilitation	93,150	-	34,032	127,182	92,320	-	33,478	125,798
Day Care	-	-	-	-	19,917	-	6,758	26,675
Lifeline	2,040	-	3,726	5,766	-	-	5,161	7,695
Palliative	6,363	-	4,529	10,892	-	-	-	-
School	45,849	-	11,941	57,790	-	-	-	-
	4,862,413	354,289	1,941,867	7,397,569	4,700,766	344,564	2,485,713	7,531,043
OTHER PROFESSIONAL SERVICES:								
Anesthesiology	-	-	16,699	16,699	-	-	18,356	18,356
Radiology	486,105	167,936	523,964	1,178,005	519,348	60,272	417,478	987,098
Ultrasound	-	10,807	26,109	36,916	-	720	13,391	14,111
Nuclear Medicine	-	431,860	1,606	433,466	-	385,430	1,834	387,264
CT Scans	-	-	40,508	40,508	-	-	45,978	45,978
Dialysis	95,708	3,000	41,474	140,182	173,168	18,000	140,163	331,349
Laboratory	462,891	153,514	389,151	1,005,556	466,292	121,886	368,679	956,857
Blood Administration	-	-	89,014	89,014	-	-	76,025	76,025
Pharmacy	210,200	1,125	1,981,420	2,192,745	226,670	490	2,171,067	2,398,227
Electrocardiology	45,534	17,070	19,108	81,712	48,195	16,230	22,116	86,541
Electroencephalography	74,550	-	36,515	111,065	55,506	-	19,510	75,016
Physical Therapy	442,661	15,675	189,849	648,185	352,819	33,986	141,718	528,523
Respiratory Therapy	176,841	-	108,593	285,434	162,081	-	99,942	262,023
Ambulance	379,722	-	148,499	528,221	378,263	-	133,647	511,910
ER Physicians	-	606,846	4,142	610,988	-	576,008	3,859	579,867
Cardiopulmonary	26,948	-	12,250	39,198	26,808	-	11,782	38,590
Occupational Therapy	239,832	-	79,082	318,914	187,345	384	62,759	250,488
Speech Therapy	2,582	-	797	3,379	2,541	-	1,102	2,067
Oncology	295,896	16,830	107,869	403,765	255,079	17,034	86,292	343,371
Fitness Center	121,389	-	91,712	213,101	116,161	15,000	89,659	222,840
Medical Records	281,665	-	200,661	482,326	278,424	-	215,410	491,834
Specialty Clinics	34,115	-	35,221	69,336	29,231	-	42,887	72,118
Women's Center	71,377	-	25,831	97,208	79,789	-	30,088	109,887
Diabetic education	72,128	-	20,638	92,766	70,089	-	21,969	92,058
Infection control	48,702	-	16,633	65,335	46,389	-	16,196	62,585
	3,568,846	1,424,663	4,207,545	9,201,054	3,474,216	1,245,440	4,253,937	8,973,593
GENERAL SERVICES:								
Dietary	263,414	-	208,484	471,898	242,727	-	181,930	424,657
Plant	204,355	-	501,373	705,728	217,185	-	469,389	671,574
Housekeeping	366,928	-	136,424	503,352	315,035	-	116,932	431,967
Laundry and Linen	299	-	98,978	99,277	-	-	99,736	99,736
	834,996	-	945,259	1,780,255	772,947	-	860,987	1,633,934
ADMINISTRATIVE SERVICES:								
	1,671,947	42,834	1,275,010	2,989,891	1,560,628	91,084	1,168,029	2,819,739
NONDEPARTMENTAL:								
Depreciation and Amortization	-	-	1,919,880	1,919,880	-	-	1,674,321	1,674,321
Insurance	-	-	173,187	173,187	-	-	147,218	147,218
Interest	-	-	43,300	43,300	-	-	23,647	23,647
	-	-	2,136,467	2,136,467	-	-	1,845,186	1,845,186
TOTAL EXPENSES	10,758,202	1,821,886	10,925,148	23,505,236	10,506,555	1,681,086	10,613,852	22,805,495

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2005 and 2004

ANALYSIS OF AGING:

Days Since Discharge	2005		2004	
	Amount	Percent of Total	Amount	Percent of Total
0 - 60	\$ 3,774,871	78.22 %	3,771,255	71.18 %
61 - 90	288,835	5.99	432,993	8.17
91 - 180	309,640	6.41	462,358	8.73
181 - and over	<u>452,478</u>	<u>9.38</u>	<u>631,221</u>	<u>11.92</u>
	4,825,824	100.00 %	5,297,827	100.00 %
Less:				
Allowance for doubtful accounts	(452,000)		(429,000)	
Allowance for contractual adjustments	<u>(1,315,000)</u>		<u>(1,547,000)</u>	
	<u>\$ 3,058,824</u>		<u>3,321,827</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ 429,000		406,700	
Provision of uncollectible accounts	561,672		553,190	
Recoveries of accounts previously written off	333,555		372,301	
Accounts written off	<u>(872,227)</u>		<u>(903,191)</u>	
Balance, end of year	<u>\$ 452,000</u>		<u>429,000</u>	

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Inventories / Prepaid Expenses
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
INVENTORY:		
Pharmacy	\$ 277,825	256,773
Central service	199,755	222,305
Surgery	<u>226,985</u>	<u>213,066</u>
	<u>\$ 704,565</u>	<u>692,144</u>
 PREPAID EXPENSES:		
Insurance	\$ 61,266	49,189
Service contracts	52,466	46,443
Dues	17,765	13,502
Other	<u>22,284</u>	<u>20,045</u>
	<u>\$ 153,781</u>	<u>129,179</u>

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Financial Statistical Highlights
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Patient Days:		
Hospital -		
Adult and pediatric	4,163	4,494
Newborn	624	557
Swing bed - skilled	1,687	1,832
Hope Harbor	<u>2,512</u>	<u>2,764</u>
	<u>8,986</u>	<u>9,647</u>
Discharges:		
Hospital adult and pediatric	<u>1,342</u>	<u>1,371</u>
Average length of stay:		
Hospital adult and pediatric	3.08	3.28
Observation visits	630	563
Surgical procedures	2,113	2,253
Emergency Room visits	7,132	7,301
Full-time equivalents personnel	284.24	281.56



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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 Board of Trustees of
Buena Vista Regional Medical Center
Storm Lake, Iowa:

We have audited the accompanying balance sheet of BUENA VISTA REGIONAL MEDICAL CENTER (Hospital), as of June 30, 2005 and the related statement of revenue, expenses, changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated September 16, 2005. 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 the Hospital's 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 certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve 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 the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II in the accompanying schedule of findings and question costs.

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 believe Item II-A-05 below is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's 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. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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. Prior year statutory comment, Item 04-I-A has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Buena Vista Regional Medical Center, and other parties to whom Buena Vista Regional Medical Center may report. This report is not intended to and should not be used by anyone other than those specified parties.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
September 16, 2005.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Schedule of Findings and Questioned Costs

June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements. The reportable condition is considered a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-05

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

Segregation of Duties: One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation: Due to a limited number of administrative personnel, a lack of segregation of duties exists. Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

Response: Management is aware of this reportable condition and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

Conclusion: Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

III-A-05

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2005.

Recommendation: We recommend that the Board monitor the amounts of monies on deposit at each institution named in the resolution and make funding changes or resolution updates as necessary.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Schedule of Findings and Questioned Costs

June 30, 2005

Response: We will ensure that the amount of funds on deposit at each institution does not exceed the maximum amounts named in the resolution naming official depositories and will update the resolution to increase the deposit amounts.

Conclusion: Response accepted.

III-B-05

Certified Budget: Hospital disbursements during the year ended June 30, 2005, did not exceed budgeted amounts.

III-C-05

Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of the public purpose as defined in the attorney General's opinion dated March 12, 2975. The expense was as follows:

Paid To	Purpose	Amount
Various organizations	Employee recognition banquet	\$10,489

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Hospital fees it meets the requirements of public purpose as defined by the Attorney General's opinion dated March 12, 1975.

Conclusion: Response accepted.

III-D-05

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-E-05

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Schedule of Findings and Questioned Costs

June 30, 2005

III-F-05

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

III-G-05

Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.