

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2006 and 2005**

Together with Independent Auditor's Report

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

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BUENA VISTA REGIONAL MEDICAL CENTER

Storm Lake, Iowa

OFFICIALS

June 30, 2006

<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 &
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CONSULTANTS
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Independent Auditor's Report

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Dennis K Grindle, CPA
Dennis R Hem, CPA
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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 balance sheets of BUENA VISTA REGIONAL MEDICAL CENTER (Hospital), as of and for the year ended June 30, 2006 and 2005, and the related statements of revenue, expenses and changes in net assets and cash flows for the years 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 audits.

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 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 Buena Vista Regional Medical Center as of June 30, 2006 and 2005, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2006, 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 10 are not required parts of the basic financial statements, but are 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 8, 2006.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2006 and 2005

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, 2006. Please read it in conjunction with the financial statements in this report, which follow.

Financial Highlights

- BVRMC's total assets increased by approximately \$2,238,000 or 6.7%, primarily due to the financial results for the year ended June 30, 2006.
- During the year, BVRMC's total operating revenues increased approximately \$2,540,600 to \$25,807,000, or 10.9%, from the prior year while expenses increased \$1,411,000, or 6.0%, to \$24,926,600. BVRMC had a gain from operations of \$880,400 which is 3.4% of total operating revenue compared to the prior fiscal year's loss from operations of approximately \$249,200.
- BVRMC received approximately \$348,300 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 \$1,046,100. The following is a list of significant items purchased:

<u>Capital Investments</u>	<u>Department</u>	<u>2006 Cost</u>
Communication and computer hardware and software	Various	\$188,200
Radiology equipment	Radiology	\$168,500
Surgery equipment	Surgery	\$105,400
Emergency department remodeling and equipment	Emergency	\$73,800
Therapy equipment	Physical therapy	\$66,000
Fitness center remodeling and wquipment	Fitness center	\$55,200

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

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2006 and 2005

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>2006</u>	<u>2005</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Total current assets	\$ 12,466,000	10,583,000	1,883,000	17.8
Net capital assets	16,440,000	17,366,000	(926,000)	(5.3)
Other assets, including Funded Depreciation	<u>6,584,000</u>	<u>5,303,000</u>	<u>1,281,000</u>	24.2
Total assets	<u>\$ 35,490,000</u>	<u>33,252,000</u>	<u>2,238,000</u>	6.7
Current liabilities	\$ 3,964,000	3,350,000	614,000	18.3
Long-term debt	<u>758,000</u>	<u>1,012,000</u>	<u>(254,000)</u>	(25.1)
Total liabilities	4,722,000	4,362,000	360,000	8.3
Net assets	<u>30,768,000</u>	<u>28,890,000</u>	<u>1,878,000</u>	6.5
Total liabilities and net assets	<u>\$ 35,490,000</u>	<u>33,252,000</u>	<u>2,238,000</u>	6.7

As can be seen in Table 1, total assets increased by \$2,238,000 to \$35,490,000 in fiscal year 2006, up from \$33,252,000 in fiscal year 2005. 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, 2006 and 2005

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, 2006 and 2005.

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

	<u>2006</u>	<u>2005</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Operating Revenue:				
Net patient service revenue	\$ 24,868,000	22,278,000	2,590,000	11.6
Other	939,000	988,000	(49,000)	(5.0)
Net operating revenue	<u>25,807,000</u>	<u>23,266,000</u>	<u>2,541,000</u>	10.9
Operating Expenses:				
Salaries and employee benefits	14,323,000	13,606,900	716,100	5.3
Professional fees	1,780,000	1,821,900	(41,900)	(2.3)
Supplies and other expenses	6,877,000	6,145,400	731,600	11.9
Depreciation and amortization	1,946,000	1,941,000	5,000	.3
Total operating expenses	<u>24,926,000</u>	<u>23,515,200</u>	<u>1,410,800</u>	6.0
Operating income	881,000	(249,200)	1,130,200	453.5
Non-operating Income	815,000	917,300	(102,300)	(11.2)
Net income	1,696,000	668,100	1,027,900	153.9
Capital Grants and Contributions	182,000	678,200	(496,200)	(73.2)
Operating Results Risk Sharing	--	38,000	(38,000)	(100.0)
Net assets – beginning of year	<u>28,890,600</u>	<u>27,506,300</u>	<u>1,384,300</u>	5.0
Net assets – end of year	<u>\$ 30,768,600</u>	<u>28,890,600</u>	<u>1,878,000</u>	6.5

Sources of Revenue

Operating Revenue

During fiscal year 2006, BVRMC derived the majority, or 96.4%, 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
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Management's Discussion and Analysis
June 30, 2006 and 2005

Table 3 presents the relative percentages of gross charges billed for patient services, by payor, for the fiscal years ended June 30, 2006 and 2005.

Table 3: Payor Mix by Percentage

	<u>2006</u>	<u>2005</u>
Medicare	56.4%	54.8%
Medicaid	7.2%	7.2%
Wellmark	19.9%	21.9%
Other Commercial	13.4%	13.1%
Self-pay and other	<u>3.1%</u>	<u>3.0%</u>
Total patient revenues	<u>100.0%</u>	<u>100.0%</u>

Other Revenue

Table 4 presents other revenue which includes rental income, cafeteria sales, fitness center income and other miscellaneous services.

Table 4: Other Revenue

	<u>2006</u>	<u>2005</u>
Rental Income	\$ 248,000	236,000
Fitness Center	179,000	187,000
Cafeteria/Vending	110,000	93,000
Grants	108,000	97,000
Rebates	80,000	102,000
Contracted Services	56,000	42,000
Other	<u>158,000</u>	<u>231,000</u>
Total	<u>\$ 939,000</u>	<u>988,000</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 \$424,500 during fiscal year 2006. BVRMC also received \$348,300 in county tax subsidy in fiscal year 2006.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2006 and 2005

Operating and Financial Performance

Overall activity at BVRMC, as measured by patient admissions, increased by .4%. There were 2,086 admissions in 2006 and 2,077 admissions in 2005. Patient days decreased 4.5% from 8,986 in 2005 to 8,583 in 2006. Total Outpatient procedures in the Emergency, Surgery, Radiology, Laboratory, and Rehab Departments increased by 8.7% to 110,758 in 2006 from 101,918 in 2005.

The following summarizes BVRMC's statements of revenue, expenses, and changes in net assets between 2006 and 2005:

Table 5: Patient and Hospital Statistical Data

	<u>2006</u>	<u>2005</u>
Total Admissions		
Acute	1,342	1,346
Newborn	294	299
Swing Bed	251	211
Hope Harbor	199	221
Total Days Care		
Acute	3,976	4,163
Newborn	614	624
Swing Bed	1,332	1,687
Hope Harbor	2,661	2,512
Average Daily Census		
Acute	10.4	11.3
Newborn	1.7	1.7
Swing Bed	3.7	4.6
Hope Harbor	7.3	6.9
Average Length of Stay		
Acute	3.0	3.1
Newborn	2.1	2.1
Swing Bed	5.3	8.1
Hope Harbor	13.7	11.4
Emergency Room Visits	7,469	7,132
Total Surgical Procedures	2,904	2,520
Total Radiology Procedures	14,798	14,681
Total Laboratory Procedures	75,974	73,899
Home Health Visits	6,039	5,097
Full-time equivalents (FTE's)	294.2	284.2

Total net patient service revenue increased \$2,589,600 or 11.6% in 2006.

Increases in net patient service revenue primarily are due to volume increases in outpatient surgeries and procedures as depicted on the proceeding page, Table 5 Patient and Hospital Statistical Data. Gross patient revenue increased \$3,337,500, or 9.1% from prior year primarily due to increased outpatient volume and rate increases, and net patient service revenue before provision for bad debt increased \$2,776,000, or 12.2% due to increases in gross patient revenue described above, and due to decreases in contractual allowance percentages.

BUENA VISTA REGIONAL MEDICAL CENTER
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Management's Discussion and Analysis
June 30, 2006 and 2005

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

Table 6: Allowance Summary

	<u>2006</u>	<u>2005</u>
Medicare	\$ 10,643,000	10,040,800
Medicaid	1,444,000	1,538,200
Wellmark and other commercial	1,925,000	1,882,100
Provision for bad debts	748,000	561,700
Other Adjustments and charity care	<u>252,000</u>	<u>241,400</u>
Total	\$ <u>15,012,000</u>	<u>14,264,200</u>

Days in accounts receivable increased from 49.02 days in fiscal year 2005 to 59.29 days in fiscal year 2006.

Salary expenses increased \$670,000 or 6.2% to \$11,428,000 in 2006 from \$10,758,200 in 2005. As a percentage of net patient service revenue, salary expense was 45.9% and 48.3% for the fiscal years ended June 2006 and 2005, respectively.

Employee benefit expense increased \$46,000, or 1.6% from prior year. Employee benefit expense represented 25.3% and 26.5% of salary expenses in fiscal years 2006 and 2005 respectively.

Supplies, interest and other expenses increased \$731,500, or 11.9% from the prior year. As a percentage of net patient service revenue, supplies expense increased slightly to 27.7% from 27.6% for the fiscal years ended June 2006 and 2005, respectively.

Professional fees and purchased services decreased \$41,800, or 2.3% from prior year primarily due to cancellation of a management agreement for the inpatient geriatric unit.

Depreciation and amortization expense increased \$5,000 or .3% from \$1,941,000 in 2005, to \$1,946,000 in 2006. This increase is primarily due a normal depreciation on existing assets.

Total operating expenses increased by \$1,411,000, or 6.0%, for the year ended June 30, 2006 for the reasons discussed above.

Budgetary Highlights

The official county budget of BVRMC for the year ended June 30, 2006 was prepared on a modified accrual basis. BVRMC expenditures during 2006 and 2005 did not exceed amounts budgeted.

Actual expenditures were lower than the budget by \$2,317,100 due to lower than anticipated operating expenses. Actual revenues were also lower than budgeted by \$299,500.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2006 and 2005

Capital Assets

During fiscal year 2006, BVRMC invested \$1,046,100 in a broad range of capital assets included in Table 7 below.

Table 7: Capital Assets

	<u>2006</u>	<u>2005</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Land and Land Improvements	\$ 1,274,900	1,186,400	88,500	7.5
Buildings and Fixed Equipment	24,253,800	23,991,400	262,400	1.1
Major Movable Equipment	9,749,500	9,391,000	358,500	3.8
	35,278,200	34,568,800	709,400	2.1
Less: Accumulated Depreciation	<u>18,990,700</u>	<u>17,271,100</u>	<u>1,719,600</u>	10.0
Net Property, Plant, and Equipment	\$ <u>16,287,500</u>	<u>17,297,700</u>	<u>(1,010,200)</u>	(5.8)
Construction in Progress	\$ <u>153,000</u>	<u>68,600</u>	<u>84,400</u>	123.0

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, emergency, radiology, and computer equipment.

As seen in Table 8, BVRMC's fiscal year 2007 capital budget projects spending up to \$3,076,000 for capital projects. These projects will be primarily 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 2007 Capital Budget

Facility Expansion and Renovation	\$ 2,000,000
Computer Hardware and Software	110,000
Radiology Equipment	100,000
OB/Medical/Surgical Floor Remodel	300,000
Surgery Equipment	250,000
Emergency/Ambulance Equipment	100,000
All other Capital Additions	<u>216,000</u>
	\$ <u>3,076,000</u>

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2006 and 2005

Long-Term Debt (including Capital Leases)

At year end, BVRMC has \$1,011,900 in short-term and long-term debt. This is a decrease of \$246,100 from the fiscal year 2005, as a result of payments on the capital lease obligation. More detailed information about BVRMC's long-term liabilities is presented in the notes to the basic financial statements. Total debt outstanding represents approximately 2.9% of BVRMC's total assets at June 30, 2006.

Contacting Buena Vista Regional Medical Center'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, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 3,280,297	3,053,478
Investments	3,168,530	2,643,199
Receivables -		
Patient, net of allowance for doubtful accounts of \$640,000 in 2006 and \$452,000 in 2005	4,160,706	3,058,824
Other	191,035	227,399
Due from affiliate	--	38,019
Inventories	795,938	704,565
Prepaid expenses	156,965	153,782
Succeeding year property tax receivable	337,540	337,774
Internally designated assets	<u>374,960</u>	<u>366,063</u>
Total current assets	<u>12,465,971</u>	<u>10,583,103</u>
Assets limited as to use or restricted:		
Internally designated assets	6,917,876	5,567,131
Restricted funds	<u>40,977</u>	<u>101,417</u>
	6,958,853	5,668,548
Less amount required to meet current obligations	<u>374,960</u>	<u>366,063</u>
Total assets limited as to use, net of current portion	<u>6,583,893</u>	<u>5,302,485</u>
Capital assets, net	<u>16,440,476</u>	<u>17,366,376</u>
Total assets	<u>\$ 35,490,340</u>	<u>33,251,964</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of capital lease obligations	\$ 253,862	246,074
Accounts payable	882,984	714,814
Accrued salaries and vacation	937,394	953,920
Accrued health insurance	200,000	194,335
Payroll taxes withheld and accrued	115,305	246,394
Estimated third-party payor settlements	1,236,714	656,173
Deferred revenue for succeeding year property tax receivable	<u>337,540</u>	<u>337,774</u>
Total current liabilities	3,963,799	3,349,484
Long-term liabilities:		
Capital lease obligations, net of current portion	<u>758,066</u>	<u>1,011,928</u>
Total liabilities	<u>4,721,865</u>	<u>4,361,412</u>
Net assets:		
Invested in capital assets, net of related debt	15,428,548	16,108,374
Restricted	40,977	101,417
Unrestricted	<u>15,298,950</u>	<u>12,680,761</u>
Total net assets	<u>30,768,475</u>	<u>28,890,552</u>
Total liabilities and net assets	<u>\$ 35,490,340</u>	<u>33,251,964</u>

See notes to 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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 25,616,051	22,840,075
Provision for bad debt	<u>(748,084)</u>	<u>(561,672)</u>
Net patient and service revenue	24,867,967	22,278,403
Other operating revenue	<u>939,040</u>	<u>988,007</u>
Total operating revenue	<u>25,807,007</u>	<u>23,266,410</u>
OPERATING EXPENSES:		
Salaries	11,428,121	10,758,202
Employee benefits	2,894,769	2,848,742
Purchased services and professional fees	1,780,087	1,821,886
Supplies	4,806,551	4,294,972
Other expenses	2,034,950	1,807,491
Depreciation and amortization	1,946,363	1,941,001
Interest	<u>35,751</u>	<u>43,300</u>
Total operating expenses	<u>24,926,592</u>	<u>23,515,594</u>
OPERATING INCOME (LOSS)	<u>880,415</u>	<u>(249,184)</u>
NONOPERATING REVENUES, NET:		
County tax revenues	348,294	349,475
Investment income	424,461	225,551
Noncapital grants and contributions	45,458	55,836
Gain (loss) on disposal of capital assets	<u>(2,586)</u>	<u>286,389</u>
Nonoperating revenues, net	<u>815,627</u>	<u>917,251</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	1,696,042	668,067
CAPITAL GRANTS AND CONTRIBUTIONS	181,881	678,152
OPERATING RESULTS RISK SHARING	<u>--</u>	<u>38,019</u>
INCREASE IN NET ASSETS	1,877,923	1,384,238
NET ASSETS, beginning of year	<u>28,890,552</u>	<u>27,506,314</u>
NET ASSETS, end of year	\$ <u>30,768,475</u>	<u>28,890,552</u>

See notes to financial statements

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 24,346,626	22,449,579
Cash paid for employee salaries and benefits	(14,464,840)	(13,746,019)
Cash paid to suppliers and contractors	(8,549,083)	(8,004,054)
Other receipts and payments, net	<u>975,404</u>	<u>1,027,106</u>
Net cash provided by operating activities	<u>2,308,107</u>	<u>1,726,612</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	348,294	349,475
Operating results risk sharing	38,019	--
Noncapital grants and contributions	<u>45,458</u>	<u>55,836</u>
Net cash provided by noncapital financing activities	<u>431,771</u>	<u>405,311</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions	181,881	678,152
Payments on capital lease obligations	(246,074)	(238,524)
Interest paid	(35,751)	(43,300)
Proceeds from the sale of property and equipment	23,047	337,340
Purchase of property and equipment, net	<u>(1,044,987)</u>	<u>(1,413,906)</u>
Net cash used in capital and related financing activities	<u>(1,121,884)</u>	<u>(680,238)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	424,461	225,551
Deposits to investments, net	(525,331)	(950,235)
Deposits to assets limited as to use or restricted, net	<u>(1,290,305)</u>	<u>(1,464,851)</u>
Net cash used in investing activities	<u>(1,391,175)</u>	<u>(2,189,535)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	226,819	(737,850)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>3,053,478</u>	<u>3,791,328</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 3,280,297</u>	<u>3,053,478</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, 2006 and 2005

	2006	2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 880,415	(249,184)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -		
Depreciation and amortization	1,946,363	1,941,001
Interest expense included in operating expenses	35,751	43,300
(Increase) decrease in current assets -		
Receivables -		
Patients	(1,101,882)	263,003
Other	36,364	39,099
Inventories	(91,373)	(12,421)
Prepaid expenses	(3,183)	(24,603)
Increase (decrease) in current liabilities -		
Accounts payable	167,061	111,845
Accrued salaries, vacation and payroll taxes payable	(147,615)	(171,307)
Accrued health insurance	5,665	32,232
Due to affiliate	--	(154,526)
Estimated third-party payor settlements	580,541	(91,827)
Net cash provided by operating activities	\$ 2,308,107	1,726,612

See notes to financial statements

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Notes to Financial Statements

June 30, 2006 and 2005

(1) Description of Reporting Entity 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 result when constraints are placed on net asset use 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 assets acquisitions are recorded at cost. All acquisitions of capital assets over \$2,500 for single items or for assets purchased as a group are capitalized. Depreciation is provided in the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements. 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. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restriction are reported when the donated or acquired capital assets are placed in service.

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, 2006 and 2005.

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, reimbursed costs, 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 \$252,298 and \$241,396 for 2006 and 2005, 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. *2005 Financial Statements*

Certain amounts in the 2005 financial statements have been reclassified to conform to the 2006 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 in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. 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, 2004.

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

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.

The Hospital reports net patient services revenue at realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 56.4% and 7.2%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2006, and 54.8% and 7.2%, respectively, for the year ended June 30, 2005. 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.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 9,377,717	8,660,542
Outpatient	25,173,186	23,171,907
Swingbed	1,435,642	1,210,104
Behavioral health	3,158,937	2,910,332
Hospice	734,609	589,704
Total gross patient service revenue	<u>39,880,091</u>	<u>36,542,589</u>
Contractual adjustments:		
Medicare	10,643,027	10,040,841
Medicaid	1,443,846	1,538,249
Other	1,924,869	1,882,028
Charity care services	<u>252,298</u>	<u>241,396</u>
Total contractual adjustments	<u>14,264,040</u>	<u>13,702,514</u>
Net patient service revenue before provision for bad debt	<u>\$ 25,616,051</u>	<u>22,840,075</u>

(3) Bank Deposits and Investments

The Hospital's deposits in banks at June 30, 2006 and 2005 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, 2006 and 2005, are summarized as follows:

	<u>2006</u>	<u>2005</u>
Unrestricted Assets:		
Cash and cash equivalents	\$ 59,056	56,148
Certificates of deposit	3,078,821	2,565,717
Interest receivable	<u>30,653</u>	<u>21,334</u>
	<u>\$ 3,168,530</u>	<u>2,643,199</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, 2006 was 3.4 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, 2006 and 2005, are summarized as follows:

	<u>2006</u>	<u>2005</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 1,707,026	1,728,253
Certificates of deposit	4,725,080	3,715,404
US government agencies	398,931	79,020
Interest receivable	<u>86,839</u>	<u>44,454</u>
	<u>\$ 6,917,876</u>	<u>5,567,131</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 3.4 months and 174 months for US government agencies as of June 30, 2006.

By Donor – Cash deposits designated by the donor for future capital improvements and operations, as of June 30, 2006 and 2005, are summarized as follows:

	<u>2006</u>	<u>2005</u>
Restricted Assets:		
Cash and cash equivalents	<u>\$ 40,977</u>	<u>101,417</u>

(6) Composition of Patient Receivables

Patient receivables as of June 30, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Patient accounts	\$ 6,425,706	4,825,824
Less estimated third-party contractual adjustments	(1,625,000)	(1,315,000)
Less allowance for doubtful accounts	<u>(640,000)</u>	<u>(452,000)</u>
	<u>\$ 4,160,706</u>	<u>3,058,824</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>2006</u>	<u>2005</u>
Medicare	41%	41%
Medicaid	7	5
Commercial insurance	34	29
Patients and residents	<u>18</u>	<u>25</u>
	<u>100%</u>	<u>100%</u>

(7) Capital Assets

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

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2006</u>
Capital assets, not being depreciated,				
Land	\$ 513,028	--	--	513,028
Construction in progress	68,600	84,464	--	153,064
	<u>581,628</u>	<u>84,464</u>	<u>--</u>	<u>666,092</u>
Capital assets, being depreciated:				
Land improvements	673,395	90,261	(1,783)	761,873
Buildings	21,257,054	113,318	(3,229)	21,367,143
Fixed equipment	2,734,392	176,461	(24,235)	2,886,618
Major movable equipment	9,391,053	581,592	(223,148)	9,749,497
Total capital assets, being depreciated	<u>34,055,894</u>	<u>961,632</u>	<u>(252,395)</u>	<u>34,765,131</u>
Less accumulated depreciation:				
Land improvements	(375,369)	(48,676)	724	(423,321)
Buildings	(8,793,054)	(868,247)	3,228	(9,658,073)
Fixed equipment	(1,098,232)	(395,330)	22,517	(1,471,045)
Major movable equipment	(7,004,491)	(634,110)	200,293	(7,438,308)
Total accumulated depreciation	<u>(17,271,146)</u>	<u>(1,946,363)</u>	<u>226,762</u>	<u>(18,990,747)</u>
Total capital assets, being depreciated, net	<u>16,784,748</u>	<u>(984,731)</u>	<u>(25,633)</u>	<u>15,774,384</u>
Total capital assets, net	<u>\$ 17,366,376</u>	<u>(900,267)</u>	<u>(25,633)</u>	<u>16,440,476</u>
	<u>June 30, 2004</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2005</u>
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)	(40,738)	310	(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>(1,919,980)</u>	<u>1,198,590</u>	<u>(17,271,146)</u>
Total capital assets, being depreciated, net	<u>17,372,780</u>	<u>(535,821)</u>	<u>(52,211)</u>	<u>16,784,748</u>
Total capital assets, net	<u>\$ 18,068,235</u>	<u>(421,994)</u>	<u>(279,865)</u>	<u>17,366,376</u>

Total depreciation for the year ended June 30, 2006 and 2005, including depreciation on rental property owned by the Hospital, was \$1,946,363 and \$1,919,980, respectively.

(8) Capital Lease Obligations

Capital lease obligations activity of the Hospital as of June 30, 2006 and 2005 consisted of the following:

	<u>June 30, 2005</u>	<u>Payments</u>	<u>June 30, 2006</u>	<u>Due Within One Year</u>
Capital lease obligation (A)	\$ <u>1,258,002</u>	<u>(246,074)</u>	<u>1,011,928</u>	<u>253,862</u>
	<u>June 30, 2004</u>	<u>Payments</u>	<u>June 30, 2005</u>	<u>Due Within One Year</u>
Capital lease obligation (A)	\$ <u>1,496,526</u>	<u>(238,524)</u>	<u>1,258,002</u>	<u>246,074</u>

(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>
2007	\$ 253,862	27,962	281,824
2008	261,896	19,928	281,824
2009	270,185	11,639	281,824
2010	<u>225,985</u>	<u>3,178</u>	<u>229,163</u>
	<u>\$ 1,011,928</u>	<u>62,707</u>	<u>1,074,635</u>

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

	<u>2006</u>	<u>2005</u>
Cost	\$ 1,580,666	1,580,666
Less: Accumulated amortization	<u>(774,372)</u>	<u>(464,623)</u>
Net book value	<u>\$ 806,294</u>	<u>1,116,043</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, 2006 and 2005 were approximately \$636,000 and \$602,000, 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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Receivable from (payable to) affiliate	\$ --	38,019
Fees to affiliate for personnel and services	(178,680)	(162,853)
Operating results risk sharing	--	38,019

(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, 2006.

(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) 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, 2006 and 2005 follows:

	<u>(Unaudited)</u>	
	<u>2006</u>	<u>2005</u>
Assets	\$ <u>967,312</u>	<u>761,337</u>
Net assets	\$ <u>904,569</u>	<u>616,824</u>

The Hospital received \$147,216 and \$641,499 from the Foundation during the years ended June 30, 2006 and 2005, respectively, for the purchase of property and equipment. The Hospital also received \$10,122 and \$49,502 from the Foundation for minor equipment during the years ended June 30, 2006 and 2005. As of June 30, 2006, the Foundation has approximately \$14,082 of pledges receivable related to the Hospital's project.

(14) 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, 2006 and 2005, the Hospital has accumulated funds in excess of actual claims paid of \$83,610 and \$18,160, 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, 2006 and 2005 was \$200,000 and \$194,335, respectively.

(15) Recruitment

The Hospital has entered into various physician income guarantee agreements to recruit needed physicians to the community of Storm Lake, Iowa. All monies advanced under these agreements will be forgiven over a two to three year period in which the physicians practice in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities. The physician income guarantees had, at the inception of the agreement, a maximum potential amount of future advances of \$475,000.

The following illustrates amounts advanced under these agreements and applicable amortization expense for 2006:

	<u>2006</u>
Recruitment and relocation advances -	
Beginning of year	\$ --
Advances	111,010
Amortization	<u>--</u>
End of Year	<u>\$ 111,010</u>

(16) Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters are adequately reserved for and will be resolved without material adverse effect on the Hospital's financial position or results from operations.

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, 2006

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 348,294	--	348,294	337,775	10,519
Estimated other revenues / receipts	26,656,221	(644,372)	26,011,849	26,311,300	(299,451)
Expenses / Disbursements	<u>24,926,592</u>	<u>(608,904)</u>	<u>24,317,688</u>	<u>26,634,810</u>	<u>2,317,122</u>
Net	2,077,923	(35,468)	2,042,455	14,265	<u>\$ 2,028,190</u>
Balance beginning of year	<u>28,890,552</u>	<u>(17,525,327)</u>	<u>11,365,225</u>	<u>15,149,345</u>	
Balance end of year	<u>\$ 30,968,475</u>	<u>(17,560,795)</u>	<u>13,407,680</u>	<u>15,163,610</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.

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Buena Vista Regional Medical Center preparing a budget on the cash basis of accounting.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

**Schedules of Net Patient Service Revenue
For the Years Ended June 30, 2006 and 2005**

	2006					2005							
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	
DAILY PATIENT SERVICES:													
Medical and surgical	1,422,732	185,822	-	-	53,895	1,662,249	1,366,206	155,460	-	-	107,020	1,628,686	
Obstetric	1,029,623	-	-	-	-	1,029,623	1,006,861	-	-	-	-	1,006,861	
Behavioral health	-	-	-	2,392,294	-	2,392,294	-	-	-	2,260,250	-	2,260,250	
Swing Bed	-	330,092	-	-	-	330,092	-	300,542	-	-	-	300,542	
Coronary care	442,881	-	-	-	-	442,881	430,563	-	-	-	-	430,563	
Hospice	-	-	-	-	585,116	585,116	-	-	-	-	342,125	342,125	
	<u>2,895,236</u>	<u>185,822</u>	<u>330,092</u>	<u>2,392,294</u>	<u>638,811</u>	<u>6,442,255</u>	<u>2,803,630</u>	<u>155,460</u>	<u>300,542</u>	<u>2,260,250</u>	<u>449,145</u>	<u>5,969,027</u>	
OTHER NURSING SERVICES:													
Maternal child care	-	7,737	-	-	-	7,737	-	9,626	-	-	-	9,626	
Operating and recovery room	1,562,401	3,026,993	2,147	-	68	4,591,609	909,013	2,674,320	5,946	-	-	3,589,279	
Delivery and labor room	-	104,432	-	-	-	104,432	-	101,124	-	-	-	101,124	
Medical and surgical supplies	134,947	300,969	7,044	37	1,638	444,635	160,427	345,268	9,174	256	3,597	518,722	
Emergency services	106,987	1,594,003	2,371	3,048	883	1,707,292	293,370	1,239,572	140	1,910	685	1,535,677	
Outpatient service	94,801	1,478,144	17,606	5,333	360	1,596,244	81,575	1,470,071	6,239	4,582	1,170	1,563,637	
Homecare	-	304,393	-	-	-	304,393	-	243,242	-	-	-	243,242	
Private duty nursing	-	43,713	-	-	-	43,713	-	36,105	-	-	-	36,105	
Substance abuse	-	53,121	-	-	-	53,121	-	52,809	-	-	-	52,809	
Cardiac Rehabilitation	-	104,715	558	-	-	105,273	-	115,466	560	-	-	116,026	
	<u>1,899,136</u>	<u>7,018,220</u>	<u>29,726</u>	<u>8,418</u>	<u>2,949</u>	<u>8,958,449</u>	<u>1,444,385</u>	<u>6,287,603</u>	<u>22,059</u>	<u>6,748</u>	<u>5,452</u>	<u>7,766,247</u>	
OTHER PROFESSIONAL SERVICES:													
Anesthesiology	129,735	463,034	32	-	-	592,801	98,121	355,396	210	-	-	453,727	
Radiology	104,873	1,253,934	12,763	9,606	369	1,381,545	1,057,26	1,257,840	9,627	9,226	357	1,382,776	
Ultrasound	140,990	765,891	4,244	-	381	911,506	113,240	758,109	6,055	645	370	878,419	
Nuclear medicine	59,015	1,246,440	8,420	-	-	1,313,875	51,960	1,298,555	1,050	-	-	1,351,565	
CT scans	195,525	1,387,945	10,710	2,905	-	1,597,085	178,695	1,204,150	650	2,600	-	1,386,095	
Dialysis	-	-	-	-	-	-	275	107,020	-	-	-	107,295	
Laboratory	699,376	1,718,344	84,380	164,669	6,068	2,672,837	633,438	1,571,556	66,570	161,142	1,760	2,434,466	
Blood administration	86,903	86,924	2,634	1,669	1,388	179,518	65,707	99,869	2,820	889	578	169,863	
Pharmacy	1,592,877	6,322,432	402,712	470,981	61,153	8,850,155	1,519,397	5,862,427	258,955	384,810	108,776	8,134,365	
Electrocardiology	109,688	353,526	1,278	6,204	252	470,948	123,656	353,977	2,352	5,463	105	485,553	
Electroencephalography	3,850	385,719	350	350	-	389,919	4,585	422,145	2,100	-	-	428,830	
Physical therapy	101,547	1,439,612	120,906	38,436	1,540	1,702,041	69,221	1,245,080	118,581	29,951	1,836	1,464,669	
Respiratory therapy	1,144,313	55,214	364,752	56,008	16,961	1,639,248	1,089,976	48,498	335,550	42,790	19,910	1,536,724	
Ambulance	132,594	583,928	10,860	2,224	2,464	732,070	206,512	460,814	9,704	2,200	995	680,225	
ER Physicians	38,125	860,268	381	921	273	895,968	114,605	761,691	805	1,270	420	877,986	
Cardiopulmonary	6,611	187,430	1,305	1,289	-	196,635	7,465	189,425	805	-	-	197,695	
Occupational therapy	28,880	359,026	44,382	1,023	-	433,311	17,812	342,029	64,401	968	-	425,210	
Speech therapy	8,327	11,281	6,065	1,940	-	27,613	4,832	13,564	7,947	1,380	-	27,723	
Oncology	116	436,718	-	-	-	436,834	5,179	323,649	-	-	-	328,828	
Dietary	-	2,854	-	-	-	2,854	-	9,001	-	-	-	11,126	
Diabetic education	-	48,624	-	-	-	48,624	-	44,049	126	-	-	44,175	
	<u>4,583,345</u>	<u>17,969,144</u>	<u>1,075,824</u>	<u>758,225</u>	<u>92,849</u>	<u>24,479,387</u>	<u>4,412,527</u>	<u>16,728,844</u>	<u>887,503</u>	<u>643,334</u>	<u>135,107</u>	<u>22,807,315</u>	
Gross patient service revenue	<u>9,377,717</u>	<u>25,173,186</u>	<u>1,435,642</u>	<u>3,158,937</u>	<u>734,609</u>	<u>39,880,091</u>	<u>8,660,542</u>	<u>23,171,907</u>	<u>1,210,104</u>	<u>2,910,332</u>	<u>589,704</u>	<u>36,542,589</u>	
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE													
Contractual allowances and other deductions, primarily Medicare and Medicaid						(14,011,742)						(13,461,118)	
Charity care services						(252,298)						(241,396)	
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT						25,616,051						22,840,075	
Provision for bad debt						(748,084)						(561,672)	
NET PATIENT SERVICE REVENUE						<u>\$ 24,867,967</u>	<u>\$</u>	<u>\$ 24,867,967</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 22,278,403</u>	

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Other Operating Revenue
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Rental income	\$ 247,573	236,144
Fitness center	179,096	186,879
Grants	107,656	97,097
Cafeteria	82,597	64,929
Purchasing rebates	80,124	102,158
School nurse	55,753	42,006
Lifeline	46,075	37,330
Contracted revenue	32,360	35,740
Coffee Shop	29,552	28,782
Meals on wheels	27,618	30,201
Vending machines	27,608	28,029
Miscellaneous	23,028	98,712
	<u>\$ 939,040</u>	<u>988,007</u>

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Departmental Expenses
For the Years Ended June 30, 2006 and 2005

	2006				2005			
	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	115,560	-	32,000	147,560	99,500	-	63,809	163,309
Medical and Surgical	1,290,908	-	434,761	1,725,669	1,219,919	-	405,612	1,625,531
Obstetric	538,352	230	200,856	739,438	451,401	460	173,958	625,819
Behavioral Health	634,155	200,550	203,315	1,038,020	578,999	321,858	187,974	1,088,831
Coronary Care	311,136	-	99,344	410,480	293,233	-	99,228	392,461
Hospice	180,984	9,370	169,593	359,947	129,312	7,768	60,853	197,933
Maternal Child Care	93,764	-	30,138	123,902	90,526	-	27,004	117,530
Operating and Recovery Room	341,139	17,543	591,331	950,013	360,677	22,560	456,736	839,973
Medical and Surgical Supplies	44,338	-	393,656	437,994	42,307	-	287,631	329,938
Emergency Services	741,390	200	259,995	1,001,585	369,994	-	149,401	519,395
Outpatient Services	545,090	-	281,863	826,953	529,367	-	266,506	795,873
Homecare	323,023	-	122,108	445,133	286,311	628	96,852	383,791
Private Duty Nurses	50,782	-	20,223	71,005	50,841	-	21,096	71,937
Substance Abuse	61,450	1,400	20,856	83,706	60,624	1,015	20,337	81,976
Cardiac Rehabilitation	94,200	-	32,261	126,461	93,150	-	34,032	127,182
Lifeline	2,884	-	13,380	16,264	2,040	-	3,726	5,766
Palliative	17,567	-	10,363	27,930	6,363	-	4,529	10,892
School	42,891	-	11,671	54,562	45,849	-	11,941	57,790
	5,429,615	229,293	2,927,734	8,586,642	4,682,413	354,289	2,371,225	7,407,927
OTHER PROFESSIONAL SERVICES:								
Anesthesiology	-	-	26,471	26,471	-	-	16,699	16,699
Radiology	532,270	154,280	520,567	1,207,117	486,105	167,936	523,964	1,178,005
Ultrasound	-	5,850	19,985	25,835	-	10,807	26,109	36,916
Nuclear Medicine	-	388,676	1,009	389,685	-	431,860	1,606	433,466
CT Scans	-	-	80,943	80,943	-	-	40,508	40,508
Dialysis	-	-	-	-	95,708	3,000	-	98,708
Laboratory	492,842	167,721	394,207	1,054,770	462,891	153,514	389,151	1,005,556
Blood Administration	-	-	89,815	89,815	-	-	89,014	89,014
Pharmacy	-	-	89,815	89,815	-	-	89,014	89,014
Electrocardiology	219,234	100	2,114,205	2,333,539	210,200	1,125	1,981,420	2,192,745
Electroencephalography	51,205	15,658	19,936	86,799	45,534	17,070	19,108	81,712
Physical Therapy	73,231	36,955	110,186	220,372	74,550	15,675	36,515	110,065
Respiratory Therapy	528,196	3,321	193,837	725,354	442,661	-	189,849	648,185
Ambulance	175,658	-	117,773	293,431	176,841	-	108,593	285,434
ER Physicians	138,954	-	88,444	227,398	379,722	-	148,459	526,221
Cardiopulmonary	28,841	654,043	4,361	687,245	-	606,846	4,142	610,988
Occupational Therapy	223,966	-	17,521	241,487	26,948	-	12,250	39,198
Speech Therapy	2,876	783	75,563	78,122	239,832	-	79,082	318,914
Oncology	284,345	17,663	789	298,797	2,582	16,830	797	20,209
Fitness Center	116,820	-	103,235	220,055	285,896	-	107,869	403,765
Medical Records	294,848	-	90,103	384,951	121,389	-	91,712	213,101
Specialty Clinics	37,835	-	224,024	261,859	281,665	-	200,661	482,326
Women's Center	89,975	-	34,871	124,846	34,115	-	35,221	69,336
Diabetic education	86,959	-	33,689	120,648	71,377	-	25,831	97,208
Infection control	50,511	-	26,493	77,004	72,128	-	20,638	92,766
	3,428,566	1,408,095	4,333,119	9,169,780	3,588,846	1,424,663	16,833	65,535
GENERAL SERVICES:								
Dietary	267,643	-	224,314	491,957	263,414	-	208,484	471,898
Plant	214,875	-	567,275	782,150	204,355	-	501,373	705,728
Housekeeping	383,705	-	142,341	526,046	366,928	-	136,424	503,352
Laundry and Linen	380	-	109,362	109,742	299	-	98,978	99,277
	866,603	-	1,043,292	1,909,895	834,996	-	945,259	1,780,255
ADMINISTRATIVE SERVICES:								
	1,703,337	142,699	1,247,690	3,093,726	1,671,947	42,934	1,275,010	2,989,891
NONDEPARTMENTAL:								
Depreciation and Amortization	-	-	1,946,363	1,946,363	-	-	1,919,980	1,919,980
Insurance	-	-	184,435	184,435	-	-	173,187	173,187
Interest	-	-	35,751	35,751	-	-	43,300	43,300
	-	-	2,166,549	2,166,549	-	-	2,136,467	2,136,467
TOTAL EXPENSES	11,428,121	1,780,087	11,718,384	24,926,592	10,758,202	1,821,886	10,935,506	23,515,594

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2006 and 2005

ANALYSIS OF AGING:

Days Since Discharge	2006		2005	
	Amount	Percent of Total	Amount	Percent of Total
0 - 60	\$ 5,154,704	80.22 %	3,774,871	78.22 %
61 - 90	427,448	6.65	288,835	5.99
91 - 180	557,471	8.68	309,640	6.41
181 - and over	286,083	4.45	452,478	9.38
	6,425,706	100.00 %	4,825,824	100.00 %
Less:				
Allowance for doubtful accounts	(640,000)		(452,000)	
Allowance for contractual adjustments	(1,625,000)		(1,315,000)	
	\$ 4,160,706		3,058,824	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ 452,000		429,000	
Provision of uncollectible accounts	748,084		561,672	
Recoveries of accounts previously written off	376,712		333,555	
Accounts written off	(936,796)		(872,227)	
Balance, end of year	\$ 640,000		452,000	

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Inventories / Prepaid Expenses
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
INVENTORY:		
Pharmacy	\$ 298,279	277,825
Central service	210,039	199,755
Surgery	<u>287,620</u>	<u>226,985</u>
	<u>\$ 795,938</u>	<u>704,565</u>
 PREPAID EXPENSES:		
Insurance	\$ 33,162	61,266
Service contracts	62,788	52,466
Dues	27,347	17,765
Other	<u>33,668</u>	<u>22,285</u>
	<u>\$ 156,965</u>	<u>153,782</u>

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Financial Statistical Highlights
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Patient Days:		
Hospital -		
Adult and pediatric	3,976	4,163
Newborn	614	624
Swing bed - skilled	1,332	1,687
Hope Harbor	<u>2,661</u>	<u>2,512</u>
	<u>8,583</u>	<u>8,986</u>
Discharges:		
Hospital adult and pediatric	<u>1,345</u>	<u>1,342</u>
Average length of stay:		
Hospital adult and pediatric	2.96	3.08
Observation visits	376	630
Surgical procedures	2,904	2,520
Emergency Room visits	7,469	7,132
Full-time equivalents personnel	294.18	284.24



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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 financial statements of BUENA VISTA REGIONAL MEDICAL CENTER (Hospital), as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. 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, 2006, 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 II-A-05 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 8, 2006.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Schedule of Findings and Questioned Costs

June 30, 2006

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, 2006.

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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.

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, 2006, 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, 1975. The expense was as follows:

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
Various organizations	Employee recognition banquet	\$15,465

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 feels 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.

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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.