

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2007 and 2006**

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, 2007

<u>Board of Trustees</u>	<u>Address</u>	<u>Term Expires</u>
Glen Huntington, Chairman	Storm Lake, IA	2012
Edean Murray, Treasurer	Storm Lake, IA	2008
Kim Martin, Secretary	Storm Lake, IA	2008
Mike Sharar	Storm Lake, IA	2012
Keith Movall	Newell, IA	2010
Randy Bobolz	Albert City, IA	2012
Rick Lampe	Storm Lake, IA	2008

Hospital Officials

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

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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
Marty Dubas, CPA
Jerry O'Doherty, CPA

Independent Auditor's Report

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 years ended June 30, 2007 and 2006, 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 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, 2007 and 2006, 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 November 20, 2007, 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 3 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,
November 20, 2007.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2007 and 2006

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, 2007. Please read it in conjunction with the financial statements in this report, which follow.

Financial Highlights

- BVRMC's total assets increased by approximately \$6,055,000 or 17.1%, primarily due to the financial results for the year ended June 30, 2007.
- During the year, BVRMC's total operating revenues increased approximately \$6,683,000 to \$32,490,000, or 25.90%, from the prior year while expenses increased \$3,832,000, or 15.4%, to \$28,758,000. BVRMC had a gain from operations of \$3,732,000 which is 11.5% of total operating revenue. This compares to the prior fiscal year's gain from operations of approximately \$881,000.
- BVRMC received \$350,000 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 \$1,630,500. The following is a list of significant items:

<u>Capital Investments</u>	<u>Department</u>	<u>2007 Cost</u>
Construction in Progress	Surgery/Dietary Expansion	\$430,000
Construction in Progress	Parking Lot and various depts.	\$307,000
Surgery equipment	Surgery	\$268,000
Ambulance and Equipment	Ambulance	\$97,600
Computer Hardware and Software	Various	\$91,000
Labor and Delivery Equipment	OB	\$80,500

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.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Management's Discussion and Analysis
June 30, 2007 and 2006

- 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>2007</u>	<u>2006</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Total current assets	\$ 16,154,000	12,466,000	3,688,000	29.6
Net capital assets	16,115,000	16,440,000	(325,000)	(2.0)
Other assets, including Funded Depreciation	9,276,00	6,584,000	2,692,000	40.9
Total assets	\$ 41,545,000	35,490,000	6,055,000	17.1
Current liabilities	\$ 5,224,000	3,964,000	1,260,000	31.8
Long-term debt	496,000	758,000	(262,000)	(34.6)
Total liabilities	5,415,000	4,723,000	997,000	21.1
Net assets	35,825,000	30,769,000	5,056,000	16.4
Total liabilities and net assets	\$ 41,545,000	35,490,000	6,055,000	17.1

As can be seen in Table 1, total assets increased by \$6,055,000 to \$41,545,000 in fiscal year 2007, up from \$35,490,000 in fiscal year 2006. The change in total net assets results primarily from operating results in the current year.

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Management's Discussion and Analysis
June 30, 2007 and 2006

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, 2007 and 2006.

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

	<u>2007</u>	<u>2006</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Operating Revenue:				
Net patient service revenue	\$ 31,349,000	24,868,000	6,481,000	26.1
Other	1,141,000	939,000	202,000	21.5
Net operating revenue	<u>32,490,000</u>	<u>25,807,000</u>	<u>6,683,000</u>	25.9
Operating Expenses:				
Salaries and employee benefits	15,292,000	14,323,000	969,000	6.8
Professional fees	2,406,000	1,780,000	626,000	35.2
Supplies and other expenses	9,134,000	6,878,000	2,254,000	32.8
Depreciation and amortization	1,926,000	1,946,000	(20,000)	(1.0)
Total operating expenses	<u>28,758,000</u>	<u>24,927,000</u>	<u>3,831,000</u>	15.4
Operating income	3,732,000	880,000	2,852,000	324.1
Non-operating income	1,181,000	816,000	365,000	44.7
Net income	<u>4,913,000</u>	<u>1,696,000</u>	<u>3,217,000</u>	189.7
Capital Grants and Contributions	143,000	182,000	(39,000)	(21.4)
Net assets – beginning of year	<u>30,769,000</u>	<u>28,891,600</u>	<u>1,878,000</u>	6.5
Net assets – end of year	<u>\$ 35,825,000</u>	<u>30,769,600</u>	<u>5,056,000</u>	16.4

Sources of Revenue

Operating Revenue

During fiscal year 2007, BVRMC derived the majority 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.

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Table 3 presents the relative percentages of gross charges billed for patient services, by payor, for the fiscal years ended June 30, 2007 and 2006.

Table 3: Payor Mix by Percentage

	<u>2007</u>	<u>2006</u>
Medicare	53.1%	56.4%
Medicaid	6.0%	7.7%
Wellmark	24.1%	20.5%
Other Commercial	13.4%	13.0%
Self-pay and other	3.4%	56.4%
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>2007</u>	<u>2006</u>
Rental Income	\$ 260,000	248,000
Rebates	218,000	80,000
Fitness Center	176,000	179,000
Grants	141,000	108,000
Cafeteria/Vending	121,000	110,000
Contracted Services	55,000	56,000
Other	170,000	158,000
Total	<u>\$ 1,141,000</u>	<u>939,000</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 \$746,700 during fiscal year 2007. BVRMC also received \$350,000 in county tax subsidy in fiscal year 2007.

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Operating and Financial Performance

Overall activity at BVRMC, as measured by patient admissions, increased by 2.4% to 2,137 admissions in 2007, from 2,086 admissions in 2006. Patient days increased 10.6% from 8,583 in 2006 to 9,496 in 2007. Total Outpatient procedures in the Emergency, Surgery, Radiology, Laboratory, and Rehab Departments increased to 131,929 in 2007 compared to 110,758 in 2006.

The following summarizes BVRMC's statements of revenue, expenses, and changes in net assets between 2007 and 2006:

Table 5: Patient and Hospital Statistical Data

	<u>2007</u>	<u>2006</u>
Total Admissions		
Acute	1,416	1,342
Newborn	270	294
Swing Bed	229	251
Hope Harbor	222	199
Total Days Care		
Acute	4,267	3,976
Newborn	557	614
Swing Bed	1,281	1,332
Hope Harbor	3,391	2,661
Average Daily Census		
Acute	13.3	10.4
Newborn	1.2	1.7
Swing Bed	1.9	3.7
Hope Harbor	7.4	7.3
Average Length of Stay		
Acute	3.0	3.0
Newborn	2.1	2.1
Swing Bed	5.6	5.3
Hope Harbor	15.4	13.7
Emergency Room Visits	7,600	7,469
Total Surgical Procedures	3,011	2,904
Total Radiology Procedures	15,411	14,798
Total Laboratory Procedures	80,891	75,974
Home Health Visits	5,625	6,039
Full-time equivalents (FTE's)	302.9	294.2

Increases in net patient service revenue primarily are due to volume increases in patient days, outpatient surgeries, and procedures as depicted on the preceding page, Table 5 Patient and Hospital Statistical Data. Gross patient revenue increased \$10,870,000, or 27.3% from prior year primarily due to increased patient volume and rate increases, and net patient service revenue increased \$6,481,000 and 26.1% due to increases in gross patient revenue described above, and due to a slight decrease in contractual allowance percentages. Contractual allowances have remained steady at approximately 36% of gross patient revenue, primarily due to the first full year of Critical Access Hospital status.

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Management's Discussion and Analysis
June 30, 2007 and 2006

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

Table 6: Allowance Summary

	2007	2006
Medicare	\$ 13,098,000	10,643,000
Medicaid	1,360,000	1,444,000
Wellmark and other commercial	3,421,000	1,925,000
Provision for bad debts	1,157,000	748,000
Other Adjustments and charity care	365,000	252,000
Total	\$ 19,401,000	15,012,000

Days in accounts receivable decreased from 61.1 days in fiscal year 2006 to 52.6 days in fiscal year 2007.

Salary expenses increased \$945,000 or 8.3% to \$12,373,000 in 2007 from \$11,428,000 in 2006. As a percentage of net patient service revenue, salary expense was 39.1% and 45.9% for the fiscal years ended June 2007 and 2006, respectively.

Employee benefit expense increased \$25,000, or .1% from prior year. Employee benefit expense represented 23.6% and 25.3% of salary expenses in fiscal years 2007 and 2006 respectively.

Supplies and other expense increased \$2,264,000, or 33.1% from prior year. As a percentage of net patient service revenue, supplies expense increased slightly to 28.8% from 27.5% for fiscal years ended June 2007 and 2006, respectively.

Professional fees and Purchased services increased \$625,500, or 35.1% from prior year primarily due to temporary contracted radiologist services.

Depreciation decreased \$20,000, or 1.0% from \$1,946,000 in 2006, to \$1,926,000 in 2007. Interest expense decreased \$7,800 to \$28,000 in 2007 from \$35,800 in 2006.

Total operating expenses increased by \$3,831,000, or 15.4%, for the year ended June 30, 2007 for the reasons discussed above.

Budgetary Highlights

The official county budget of BVRMC for the year ended June 30, 2007 was prepared on a modified accrual basis. BVRMC expenditures during 2007 and 2006 did not exceed amounts budgeted.

Actual expenditures were lower than the budget by \$2,917,000 due to lower than anticipated operating expenses. Actual revenues were higher than budgeted by \$6,360,000.

BUENA VISTA REGIONAL MEDICAL CENTER
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Management's Discussion and Analysis
June 30, 2007 and 2006

Capital Assets

During fiscal year 2007, BVRMC invested \$1,630,500 in a broad range of capital assets included in Table 7 below.

Table 7: Capital Assets

	<u>2007</u>	<u>2006</u>	<u>Change from Prior Year</u>	<u>Percent Change</u>
Land and Land Improvements	\$ 1,295,000	1,274,900	20,100	1.6
Buildings and Fixed Equipment	24,384,000	24,253,800	130,200	.5
Major Movable Equipment	10,041,000	9,749,500	291,500	3.0
	35,720,000	35,278,200	441,800	1.3
Less: Accumulated Depreciation	20,488,000	18,990,700	1,497,300	7.9
Net Property, Plant, and Equipment	\$ <u>15,232,000</u>	<u>16,287,500</u>	<u>(1,056,000)</u>	(6.5)
Construction in Progress	\$ <u>882,000</u>	<u>153,000</u>	<u>729,000</u>	476.5

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 and upgraded surgery, emergency, labor and delivery, and computer equipment. The increase in Construction in Progress is due to architect fees for an expansion and remodel of the surgery and nutrition services areas.

In Table 8, BVRMC's fiscal year 2008 capital budget projects spending up to \$7,850,000 for capital projects. These projects will be primarily financed through \$5,000,000 revenue bonds, internal reserves, and fundraising. More information about BVRMC's capital assets is presented in the notes to the basic financial statements.

Table 8: Fiscal Year 2008 Capital Budget

Facility Expansion and Renovation	\$ 4,000,000
Radiology Equipment	2,052,000
OB/Medical/Surgical Floor Remodel	650,000
Computer Hardware and Software	504,000
Surgery Equipment	296,000
Emergency/Ambulance Equipment	134,000
All other Capital Additions	<u>214,000</u>
	\$ <u>7,850,000</u>

Long-Term Debt (including Capital Leases)

At year end, BVRMC had \$758,000 in short-term and long-term debt. This has decreased \$254,000 from fiscal year 2006, 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 1.8% of BVRMC's total assets at June 30, 2007.

BUENA VISTA REGIONAL MEDICAL CENTER
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Management's Discussion and Analysis
June 30, 2007 and 2006

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, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 5,397,340	3,280,297
Investments	4,104,177	3,168,530
Receivables -		
Patient, net of allowance for doubtful accounts of \$1,000,000 in 2007 and \$640,000 in 2006	4,561,558	4,160,706
Other	374,127	191,035
Inventories	786,934	795,938
Prepaid expenses	203,385	156,965
Succeeding year property tax receivable	337,540	337,540
Internally designated assets	<u>388,449</u>	<u>374,960</u>
Total current assets	<u>16,153,510</u>	<u>12,465,971</u>
Assets limited as to use or restricted:		
Internally designated assets	9,607,828	6,917,876
Restricted funds	<u>56,942</u>	<u>40,977</u>
	9,664,770	6,958,853
Less amount required to meet current obligations	<u>388,449</u>	<u>374,960</u>
Total assets limited as to use, net of current portion	<u>9,276,321</u>	<u>6,583,893</u>
Capital assets, net	<u>16,114,700</u>	<u>16,440,476</u>
Total assets	<u>\$ 41,544,531</u>	<u>35,490,340</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of capital lease obligations	\$ 261,897	253,862
Accounts payable	911,359	882,984
Accrued salaries and vacation	1,271,287	937,394
Accrued health insurance	152,000	200,000
Payroll taxes withheld and accrued	241,177	115,305
Estimated third-party payor settlements	2,048,298	1,236,714
Deferred revenue for succeeding year property tax receivable	<u>337,540</u>	<u>337,540</u>
Total current liabilities	5,223,558	3,963,799
Long-term liabilities:		
Capital lease obligations, net of current portion	<u>496,170</u>	<u>758,066</u>
Total liabilities	<u>5,719,728</u>	<u>4,721,865</u>
Net assets:		
Invested in capital assets, net of related debt	15,356,633	15,428,548
Restricted	56,942	40,977
Unrestricted	<u>20,411,228</u>	<u>15,298,950</u>
Total net assets	<u>35,824,803</u>	<u>30,768,475</u>
Total liabilities and net assets	<u>\$ 41,544,531</u>	<u>35,490,340</u>

See notes to financial statements

BUENA VISTA REGIONAL MEDICAL CENTER
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Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 32,505,873	25,616,051
Provision for bad debt	<u>(1,157,431)</u>	<u>(748,084)</u>
Net patient and service revenue	31,348,442	24,867,967
Other operating revenue	<u>1,141,298</u>	<u>939,040</u>
Total operating revenue	<u>32,489,740</u>	<u>25,807,007</u>
OPERATING EXPENSES:		
Salaries	12,372,780	11,428,121
Employee benefits	2,919,699	2,894,769
Purchased services and professional fees	2,405,594	1,780,087
Supplies	6,754,140	4,806,551
Other expenses	2,351,717	2,034,950
Depreciation and amortization	1,926,055	1,946,363
Interest	<u>27,962</u>	<u>35,751</u>
Total operating expenses	<u>28,757,947</u>	<u>24,926,592</u>
OPERATING INCOME	<u>3,731,793</u>	<u>880,415</u>
NONOPERATING REVENUES, NET:		
County tax revenues	349,975	348,294
Investment income	746,723	424,461
Noncapital grants and contributions	100,688	45,458
Loss on disposal of capital assets	<u>(15,920)</u>	<u>(2,586)</u>
Nonoperating revenues, net	<u>1,181,466</u>	<u>815,627</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	4,913,259	1,696,042
CAPITAL GRANTS AND CONTRIBUTIONS	<u>143,069</u>	<u>181,881</u>
INCREASE IN NET ASSETS	5,056,328	1,877,923
NET ASSETS, beginning of year	<u>30,768,475</u>	<u>28,890,552</u>
NET ASSETS, end of year	<u>\$ 35,824,803</u>	<u>30,768,475</u>

See notes to financial statements

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 31,759,174	24,346,626
Cash paid for employee salaries and benefits	(14,880,714)	(14,464,840)
Cash paid to suppliers and contractors	(11,533,228)	(8,549,083)
Other receipts and payments, net	958,206	975,404
Net cash provided by operating activities	6,303,438	2,308,107
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	349,975	348,294
Operating results risk sharing	--	38,019
Noncapital grants and contributions	100,688	45,458
Net cash provided by noncapital financing activities	450,663	431,771
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions	143,069	181,881
Payments on capital lease obligations	(253,861)	(246,074)
Interest paid	(27,962)	(35,751)
Proceeds from the sale of property and equipment	14,297	23,047
Purchase of property and equipment, net	(1,617,760)	(1,044,987)
Net cash used in capital and related financing activities	(1,742,217)	(1,121,884)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	746,723	424,461
Deposits to investments, net	(935,647)	(525,331)
Deposits to assets limited as to use or restricted, net	(2,705,917)	(1,290,305)
Net cash used in investing activities	(2,894,841)	(1,391,175)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,117,043	226,819
CASH AND CASH EQUIVALENTS - Beginning of year	3,280,297	3,053,478
CASH AND CASH EQUIVALENTS - End of year	\$ 5,397,340	3,280,297

See notes to financial statements

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 3,731,793	880,415
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	1,926,055	1,946,363
Interest expense included in operating expenses	27,962	35,751
(Increase) decrease in current assets -		
Receivables -		
Patients	(400,852)	(1,101,882)
Other	(183,092)	36,364
Inventories	9,004	(91,373)
Prepaid expenses	(46,420)	(3,183)
Increase (decrease) in current liabilities -		
Accounts payable	15,639	167,061
Accrued salaries, vacation and payroll taxes payable	459,765	(147,615)
Accrued health insurance	(48,000)	5,665
Estimated third-party payor settlements	811,584	580,541
Net cash provided by operating activities	\$ 6,303,438	2,308,107

See notes to financial statements

BUENA VISTA REGIONAL MEDICAL CENTER

Storm Lake, Iowa

Notes to Financial Statements

June 30, 2007 and 2006

(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 the two proceeding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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 for purposes of the statements of cash flows include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees or donor.

G. *Patient Receivables, Net*

Patient receivables are uncollateralized patient 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 Receivable*

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. *Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value as determined by quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses before capital grants and contributions.

K. *Capital Assets*

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. 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

The Hospital's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

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.

L. *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 420 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, 2007 and 2006, respectively.

M. *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.

N. *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.

O. *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.

P. *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.

Q. *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 \$365,434 and \$252,298 for 2007 and 2006, respectively.

R. *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.

S. *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.

(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 estimated net 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 53.1% and 6.0%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2007, and 56.4% and 7.7%, respectively, for the year ended June 30, 2006. 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, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 11,696,648	9,377,717
Outpatient	32,467,491	25,173,186
Swingbed	1,484,848	1,435,642
Behavioral health	4,064,395	3,158,937
Hospice	1,036,554	734,609
Total gross patient service revenue	<u>50,749,936</u>	<u>39,880,091</u>
Contractual adjustments:		
Medicare	13,098,076	10,643,027
Medicaid	1,359,578	1,443,846
Other	3,420,975	1,924,869
Charity care services	365,434	252,298
Total contractual adjustments	<u>18,244,063</u>	<u>14,264,040</u>
Net patient service revenue before provision for bad debt	<u>\$ 32,505,873</u>	<u>25,616,051</u>

(3) Bank Deposits and Investments

The Hospital's deposits in banks at June 30, 2007 and 2006 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, 2007 and 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Unrestricted Assets:		
Cash and cash equivalents	\$ 64,889	59,056
Certificates of deposit	3,975,983	3,078,821
Interest receivable	<u>63,305</u>	<u>30,653</u>
	<u>\$ 4,104,177</u>	<u>3,168,530</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, 2007 was 3.7 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, 2007 and 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 3,472,281	1,707,026
Certificates of deposit	5,644,044	4,725,080
US government agencies	379,340	398,931
Interest receivable	<u>112,163</u>	<u>86,839</u>
	<u>\$ 9,607,828</u>	<u>6,917,876</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 4.0 months and 158 months for US government agencies as of June 30, 2007.

By Donor

Cash deposits designated by the donor for future capital improvements and operations, as of June 30, 2007 and 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Restricted Assets:		
Cash and cash equivalents	\$ <u>56,942</u>	<u>40,977</u>

(6) Composition of Patient Receivables

Patient receivables as of June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Patient accounts	\$ 7,697,658	6,425,706
Less estimated third-party contractual adjustments	(2,136,100)	(1,625,000)
Less allowance for doubtful accounts	<u>(1,000,000)</u>	<u>(640,000)</u>
	<u>\$ 4,561,558</u>	<u>4,160,706</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>2007</u>	<u>2006</u>
Medicare	39%	41%
Medicaid	6	7
Commercial insurance	37	34
Patients and residents	<u>18</u>	<u>18</u>
	<u>100%</u>	<u>100%</u>

(7) Capital Assets

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

	June 30, 2006	Additions	Transfers and Disposals	June 30, 2007
Capital assets, not being depreciated,				
Land	\$ 513,028	15,020	--	528,048
Construction in progress	153,064	737,822	(8,669)	882,217
	<u>666,092</u>	<u>752,842</u>	<u>(8,669)</u>	<u>1,410,265</u>
Capital assets, being depreciated:				
Land improvements	761,873	5,480	--	767,353
Buildings	21,367,143	147,810	(13,188)	21,501,765
Fixed equipment	2,886,618	--	(4,164)	2,882,454
Major movable equipment	9,749,497	724,364	(433,080)	10,040,781
Total capital assets, being depreciated	<u>34,765,131</u>	<u>877,654</u>	<u>(450,432)</u>	<u>35,192,353</u>
Less accumulated depreciation:				
Land improvements	(423,321)	(47,208)	--	(470,529)
Buildings	(9,658,073)	(854,977)	12,996	(10,500,054)
Fixed equipment	(1,471,045)	(399,327)	3,324	(1,867,048)
Major movable equipment	(7,438,308)	(624,543)	412,564	(7,650,287)
Total accumulated depreciation	<u>(18,990,747)</u>	<u>(1,926,055)</u>	<u>428,884</u>	<u>(20,487,918)</u>
Total capital assets, being depreciated, net	<u>15,774,384</u>	<u>(1,048,401)</u>	<u>(21,548)</u>	<u>14,704,435</u>
Total capital assets, net	<u>\$ 16,440,476</u>	<u>(295,559)</u>	<u>(30,217)</u>	<u>16,114,700</u>
	June 30, 2005	Additions	Transfers and Disposals	June 30, 2006
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>

Total depreciation for the year ended June 30, 2007 and 2006, including depreciation on rental property owned by the Hospital, was \$1,926,055 and \$1,946,363, respectively.

During the fiscal year 2007, the Hospital developed architectural plans relating to the relocation of the nutrition department to an area of the Hospital yet to be constructed, and renovation of the previous nutrition space for the surgery department. The estimated cost of the construction and renovation is \$7,500,000 and is expected to be completed in the fall of 2009. The project will be financed with \$5,090,000 in revenue bonds with the difference financed with operations. See Note 17 for subsequent events pertaining to the construction contract and the issuance of revenue bonds.

The Hospital is also in the process of remodeling their existing observation and surgery departments for an estimated cost of \$650,000. The Hospital intends to fund the remodel from operations. The Hospital is also in the process of a parking lot addition for an estimated cost of \$200,000. the Hospital intends to fund the paving project from operations.

(8) Capital Lease Obligations

Capital lease obligations activity of the Hospital as of June 30, 2007 and 2006 consisted of the following:

	<u>June 30, 2006</u>	<u>Payments</u>	<u>June 30, 2007</u>	<u>Due Within One Year</u>
Capital lease obligation (A)	\$ 1,011,928	(253,861)	758,067	261,897
	<u>June 30, 2005</u>	<u>Payments</u>	<u>June 30, 2006</u>	<u>Due Within One Year</u>
Capital lease obligation (A)	\$ 1,258,002	(246,074)	1,011,928	253,862

- (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>
2008	\$ 261,897	19,927	281,824
2009	270,185	11,639	281,824
2010	225,985	3,178	229,163
	<u>\$ 758,067</u>	<u>34,744</u>	<u>792,811</u>

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

	<u>2007</u>	<u>2006</u>
Cost	\$ 1,580,666	1,580,666
Less: Accumulated amortization	<u>(1,080,967)</u>	<u>(774,372)</u>
Net book value	<u>\$ 499,699</u>	<u>806,294</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, 2007 and 2006 were approximately \$691,000 and \$636,000, 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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Fees to affiliate for personnel and services	\$ (193,000)	(178,680)
Payable to affiliate	(37,680)	--

(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, 2007.

(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, 2007 and 2006 follows:

	<u>(Unaudited)</u>	
	<u>2007</u>	<u>2006</u>
Assets	\$ 1,042,951	967,312
Net assets	\$ 980,369	904,569

The Hospital received \$42,634 and \$147,216 from the Foundation during the year ended June 30, 2007 and 2006, respectively, for the purchase of property and equipment. The Hospital also received \$15,630 and \$10,122 from the Foundation for minor equipment during the years ended June 30, 2007 and 2006. As of June 30, 2007, the Foundation has approximately \$33,090 of pledges receivable related to Hospital projects.

(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, 2007 and 2006, the Hospital has accumulated funds in excess of actual claims paid of \$276,148 and \$83,610, 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, 2007 and 2006 was \$152,000 and \$200,000, respectively.

(15) Physician Recruitment

During 2007, the Hospital entered into a physician income guarantee agreement and has made various recruitment and relocation advances 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 fiscal year 2007 physician income guarantee had, at the inception of the agreement, a maximum potential amount of future advances of \$275,000 and the guarantee is set to expire in August 2008.

The following illustrates amounts advanced under these agreements and applicable amortization expense for 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Recruitment and relocation advances -		
Beginning of year	\$ 111,010	--
Advances	172,486	111,010
Interest applied	12,178	--
Amortization	<u>(54,775)</u>	<u>--</u>
End of Year	<u>\$ 240,899</u>	<u>111,010</u>

Recruitment and relocation advances are included with other receivables in the balance sheet.

(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.

(17) Subsequent Events

In November 2007, the Hospital issued Hospital Revenue Bonds Series 2007 in the amount of \$5,090,000 for the purpose of financing the cost of the renovation and construction project described in Note 7.

In August 2007, the Hospital signed a contract with Woodruff Construction, LLC, in the amount of \$5,696,200, for the renovation and construction project described in Note 7.

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, 2007

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable
Amount raised by taxation	\$ 349,975	--	349,975	337,885	12,090
Estimated other revenues / receipts	33,464,300	243,560	33,707,860	27,348,067	6,359,793
Expenses / Disbursements	28,757,947	(458,719)	28,299,228	31,216,345	2,917,117
Net	5,056,328	702,279	5,758,607	(3,530,393)	<u>\$ 9,289,000</u>
Balance beginning of year	30,768,475	(17,360,795)	13,407,680	15,404,052	
Balance end of year	<u>\$ 35,824,803</u>	<u>(16,658,516)</u>	<u>19,166,287</u>	<u>11,873,659</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, 2007 and 2006

	2007					2006						
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total
DAILY PATIENT SERVICES:												
Medical and surgical	1,664,214	180,733	-	-	76,658	1,921,605	1,422,732	185,822	-	-	53,695	1,662,249
Obstetric	979,197	-	-	-	-	979,197	1,029,623	-	-	-	-	1,029,623
Behavioral health	-	-	-	3,035,700	-	3,035,700	-	-	-	2,392,294	-	2,392,294
Swing Bed	-	-	325,775	-	-	325,775	-	-	330,092	-	-	330,092
Coronary care	464,376	-	-	-	-	464,376	442,881	-	-	-	-	442,881
Hospice	-	-	-	-	821,856	821,856	-	-	-	-	585,116	585,116
	<u>3,107,787</u>	<u>180,733</u>	<u>325,775</u>	<u>3,035,700</u>	<u>898,514</u>	<u>7,548,509</u>	<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>
OTHER NURSING SERVICES:												
Maternal child care	-	10,506	-	-	-	10,506	-	7,737	-	-	-	7,737
Operating and recovery room	3,465,936	4,192,410	20,770	-	21,380	7,700,496	1,562,401	3,026,993	2,147	-	68	4,591,609
Delivery and labor room	-	141,545	-	-	-	141,545	-	104,432	-	-	-	104,432
Medical and surgical supplies	195,167	305,787	6,127	69	4,230	511,380	134,947	300,969	7,044	37	1,638	444,635
Emergency services	20,119	2,076,353	663	1,730	-	2,098,865	106,987	1,594,003	2,371	3,048	883	1,707,292
Outpatient service	91,531	1,593,913	10,005	10,074	465	1,705,988	94,801	1,478,144	17,606	5,333	360	1,596,244
Homecare	-	284,548	-	-	-	284,548	-	304,393	-	-	-	304,393
Private duty nursing	-	49,405	-	-	-	49,405	-	43,713	-	-	-	43,713
Substance abuse	-	38,283	-	-	-	38,283	-	53,121	-	-	-	53,121
Cardiac Rehabilitation	-	139,756	-	-	-	139,756	-	104,715	588	-	-	105,273
	<u>3,772,753</u>	<u>8,832,506</u>	<u>37,565</u>	<u>11,873</u>	<u>26,075</u>	<u>12,680,772</u>	<u>1,899,136</u>	<u>7,018,220</u>	<u>29,726</u>	<u>8,418</u>	<u>2,949</u>	<u>8,956,449</u>
OTHER PROFESSIONAL SERVICES:												
Anesthesiology	152,205	494,802	1,376	-	1,596	649,979	129,735	463,034	32	-	-	592,801
Radiology	96,023	1,755,822	9,685	13,620	720	1,875,870	104,873	1,253,934	12,763	9,606	369	1,381,545
Ultrasound	163,081	843,127	6,305	-	255	1,012,768	140,990	765,891	4,244	-	381	911,506
Nuclear medicine	86,785	1,422,685	14,205	1,120	-	1,524,795	59,015	1,246,440	8,420	-	-	1,313,875
CT scans	184,405	1,582,760	9,935	2,935	-	1,780,035	195,525	1,387,945	10,710	2,905	-	1,597,085
Laboratory	598,116	1,981,054	72,617	197,641	4,780	2,950,208	699,376	1,718,344	84,380	164,669	6,068	2,672,837
Blood administration	104,746	83,867	4,787	-	1,241	194,641	86,903	86,924	2,634	1,669	1,388	179,518
Pharmacy	1,706,941	9,909,865	433,122	666,082	63,846	12,779,856	1,592,877	6,322,432	402,712	470,981	61,153	8,850,155
Electrocardiology	87,660	405,226	2,738	8,837	642	505,103	109,688	353,526	1,278	6,204	252	470,948
Electroencephalography	6,671	411,106	-	1,083	-	418,860	-	385,719	-	350	-	389,919
Physical therapy	143,789	1,370,634	140,489	52,269	764	1,707,945	101,547	1,439,612	120,906	38,436	1,540	1,702,041
Respiratory therapy	1,165,326	81,578	332,781	63,456	36,552	1,679,693	1,144,313	55,214	364,752	56,008	18,961	1,639,248
Ambulance	130,590	725,700	4,249	1,336	1,176	863,051	132,594	583,928	10,860	2,224	2,464	732,070
ER Physicians	7,830	1,011,009	860	860	-	1,019,699	38,125	860,268	381	921	273	899,968
Cardiopulmonary	14,110	229,747	638	967	-	245,462	6,611	187,430	1,305	1,289	-	196,635
Occupational therapy	56,848	389,500	76,735	4,760	245	528,088	28,880	359,026	44,382	1,023	-	433,311
Speech therapy	10,636	23,940	11,846	1,856	148	48,426	8,327	11,281	6,085	1,940	-	27,613
Oncology	-	685,524	-	-	-	685,524	116	436,718	-	-	-	436,834
Dietary	-	2,733	-	-	-	2,733	-	2,854	-	-	-	2,854
Diabetic education	346	43,573	-	-	-	43,919	-	48,624	-	-	-	48,624
	<u>4,816,108</u>	<u>23,454,252</u>	<u>1,121,508</u>	<u>1,016,822</u>	<u>111,965</u>	<u>30,520,655</u>	<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>
Gross patient service revenue	<u>11,696,648</u>	<u>32,467,481</u>	<u>1,484,848</u>	<u>4,064,385</u>	<u>1,036,554</u>	<u>50,749,936</u>	<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>39,860,091</u>
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE												
Contractual allowances and other deductions, primarily Medicare and Medicaid						(17,878,629)						(14,011,742)
Charity care services and other discounts, based on charges forgone						(365,434)						(252,298)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT						32,505,873						25,616,051
Provision for bad debt						(1,157,431)						(748,084)
NET PATIENT SERVICE REVENUE						31,348,442						24,867,967

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Other Operating Revenue
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Rental income	\$ 259,755	247,573
Purchasing rebates	217,846	80,124
Fitness center	175,758	179,096
Grants	141,319	107,656
Cafeteria	92,456	82,597
School nurse	55,421	55,753
Lifeline	48,505	46,075
Miscellaneous	34,516	23,028
Contracted revenue	31,414	32,360
Coffee shop	28,835	29,552
Vending machines	28,242	27,608
Meals on wheels	27,231	27,618
	<u>\$ 1,141,298</u>	<u>939,040</u>

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Departmental Expenses
For the Years Ended June 30, 2007 and 2006

	2007				2006			
	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	117,002	-	31,402	148,404	115,560	-	32,000	147,560
Medical and Surgical	1,419,471	-	452,633	1,872,104	1,290,908	-	434,781	1,725,689
Obstetric	651,832	535	229,447	881,814	538,352	230	200,856	739,438
Behavioral Health	714,538	102,164	234,782	1,051,485	634,155	200,550	311,136	1,038,020
Coronary Care	324,894	-	100,294	425,188	311,136	-	99,344	410,480
Hospice	231,040	15,015	220,185	466,240	180,984	9,370	169,593	359,947
Maternal Child Care	-	-	-	-	93,764	-	30,138	123,902
Operating and Recovery Room	382,701	25,567	684,312	1,102,580	341,139	17,543	591,331	950,013
Medical and Surgical Supplies	44,325	-	936,196	980,491	44,338	-	393,656	437,994
Emergency Services	845,862	750	297,404	1,144,016	741,390	200	259,895	1,001,585
Outpatient Services	541,728	8,109	285,931	835,768	545,090	-	281,863	826,953
Homecare	342,980	1,667	122,041	466,688	323,025	-	122,108	445,133
Private Duty Nurses	54,343	-	21,108	75,451	50,782	-	20,223	71,005
Substance Abuse	57,625	1,300	16,947	77,872	61,450	-	20,856	83,706
Cardiac Rehabilitation	103,090	-	33,970	137,060	94,200	-	32,261	126,461
Lifeline	3,538	-	31,775	35,313	2,884	-	13,380	16,264
Palliative	-	-	-	-	17,567	-	10,363	27,930
School	47,242	-	11,315	58,557	42,891	-	11,671	54,562
	5,892,212	155,107	3,711,712	9,759,031	5,429,615	229,293	2,927,734	8,586,642
OTHER PROFESSIONAL SERVICES:								
Anesthesiology	-	-	42,053	42,053	-	-	26,471	26,471
Radiology	571,231	387,030	572,910	1,531,171	532,270	154,280	520,567	1,207,117
Ultrasound	-	7,560	29,133	36,693	-	5,850	19,885	25,835
Nuclear Medicine	-	436,169	3,027	439,196	-	348,676	1,009	389,685
CT Scans	-	-	78,858	78,858	-	-	80,943	80,943
Laboratory	520,009	193,974	408,624	1,122,607	482,842	167,721	394,207	1,054,770
Blood Administration	-	-	96,728	96,728	-	-	89,815	89,815
Pharmacy	218,903	-	3,304,185	3,523,088	219,234	100	2,114,205	2,333,539
Electrocardiology	45,061	14,190	22,983	82,134	51,205	15,658	86,799	110,186
Electroencephalography	68,855	-	33,821	102,676	73,231	-	36,955	110,186
Physical Therapy	551,170	70,963	194,168	816,301	528,196	3,321	193,637	725,354
Respiratory Therapy	182,808	117,637	117,637	418,082	175,658	-	117,773	293,431
Ambulance	90,376	-	81,129	171,505	138,954	-	88,444	227,398
ER Physicians	29,470	758,438	960	759,898	-	654,043	4,361	658,404
Cardiovascular	237,058	-	17,788	254,846	28,841	-	17,521	46,362
Occupational Therapy	2,804	-	79,859	82,663	223,866	-	75,563	300,312
Speech Therapy	318,747	28,793	700	347,540	2,876	17,663	789	21,328
Oncology	130,030	-	111,647	241,677	284,345	-	103,235	387,580
Fitness Center	322,773	-	83,065	405,838	116,820	-	90,103	206,923
Medical Records	48,044	-	248,955	296,999	294,848	-	224,024	518,872
Specialty Clinics	89,114	-	41,590	130,704	37,835	-	34,871	72,706
Women's Center	85,790	-	33,122	122,236	88,975	-	33,689	123,664
Diabetic education	28,072	-	113,862	141,934	86,959	-	26,493	113,452
Infection control	28,304	-	31,212	59,516	50,511	-	18,322	68,834
	3,590,547	1,898,117	5,665,126	11,153,790	3,423,566	1,408,095	4,333,119	9,169,760
GENERAL SERVICES:								
Dietary	272,154	-	263,823	535,977	267,643	-	224,314	491,957
Plant	222,282	-	577,936	800,218	214,975	-	567,275	782,150
Housekeeping	391,759	-	153,416	545,175	383,705	-	142,341	526,046
Laundry and Linen	138	-	100,944	101,082	380	-	109,362	109,742
	886,333	-	1,096,119	1,982,452	664,603	-	1,043,292	1,909,695
ADMINISTRATIVE SERVICES:								
Administrative	2,003,688	352,370	1,260,928	3,616,986	1,703,337	142,999	1,247,690	3,093,726
NONDEPARTMENTAL:								
Depreciation and Amortization	-	-	1,926,055	1,926,055	-	-	1,946,363	1,946,363
Insurance	-	-	291,671	291,671	-	-	184,435	184,435
Interest	-	-	27,862	27,862	-	-	35,751	35,751
	-	-	2,245,588	2,245,588	-	-	2,166,549	2,166,549
TOTAL EXPENSES	12,372,790	2,405,594	13,979,573	28,757,947	11,428,121	1,780,087	11,718,384	24,926,592

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2007 and 2006

ANALYSIS OF AGING:

Days Since Discharge	2007		2006	
	Amount	Percent of Total	Amount	Percent of Total
0 - 60	\$ 5,967,173	77.52 %	5,154,704	80.22 %
61 - 90	490,002	6.37	427,448	6.65
91 - 180	597,767	7.76	557,471	8.68
181 - and over	642,716	8.35	286,083	4.45
	7,697,658	100.00 %	6,425,706	100.00 %
 Less:				
Allowance for doubtful accounts	(1,000,000)		(640,000)	
Allowance for contractual adjustments	(2,136,100)		(1,625,000)	
	\$ 4,561,558		4,160,706	
 ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ 640,000		452,000	
Provision of uncollectible accounts	1,157,431		748,084	
Recoveries of accounts previously written off	621,370		376,712	
Accounts written off	(1,418,801)		(936,796)	
Balance, end of year	\$ 1,000,000		640,000	

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Inventories / Prepaid Expenses
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
INVENTORY:		
Pharmacy	\$ 324,192	298,279
Central service	249,034	210,039
Surgery	<u>213,708</u>	<u>287,620</u>
	<u>\$ 786,934</u>	<u>795,938</u>
 PREPAID EXPENSES:		
Insurance	\$ 78,176	33,162
Service contracts	62,275	62,788
Dues	29,234	27,347
Other	<u>33,700</u>	<u>33,668</u>
	<u>\$ 203,385</u>	<u>156,965</u>

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Financial Statistical Highlights
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Patient days:		
Hospital -		
Adult and pediatric	4,267	3,976
Newborn	557	614
Swing bed - skilled	1,281	1,332
Hope Harbor	<u>3,391</u>	<u>2,661</u>
	<u>9,496</u>	<u>8,583</u>
Discharges:		
Hospital adult and pediatric	<u>1,419</u>	<u>1,345</u>
Average length of stay:		
Hospital adult and pediatric	3.01	2.96
Observation visits	447	376
Surgical procedures	3,011	2,904
Emergency Room visits	7,600	7,469
Full-time equivalents personnel	302.91	294.18



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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, 2007, and have issued our report thereon dated November 20, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items II-A-07 and II-B-07 to be significant deficiencies in internal control over financial reporting:

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the item described above as item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007, 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-06, has not been resolved.

We also noted certain additional matters that we reported to management of the Hospital in a separate letter dated November 20, 2007.

This Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

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,
November 20, 2007.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Schedule of Findings and Questioned Costs

June 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) One material weakness and one significant deficiency in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

II-A-07

MATERIAL WEAKNESS

<i>Criteria:</i>	The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
<i>Condition:</i>	We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.
<i>Effect:</i>	Audit entries were required to adjust the accrual for health insurance claims incurred but not yet reported, the accrual for employee incentives and the allowance as well as the net realizable value of accounts receivable for third party settlements.
<i>Cause:</i>	Allowance and accrual balances requiring estimation and judgment were incorrectly recorded.
<i>Recommendation:</i>	The Hospital should review and revise its estimation process of the stated allowance and accrual accounts to ensure that financial statements are properly stated.
<i>Response:</i>	The Hospital concurs with our comment.
<i>Conclusion:</i>	Response accepted.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Schedule of Findings and Questioned Costs

June 30, 2007

II-B-07

SIGNIFICANT DEFICIENCY

Criteria: Proper segregation of duties ensures an adequate internal control structure.

Condition: We identified instances where a lack of segregation of duties exists.

Effect: Without proper segregation of duties, a greater risk of fraud and defalcation may exist.

Cause: Due to a limited number of administrative personnel, a lack of segregation of duties exists.

Recommendation: We recommend the Hospital continue to monitor and improve its segregation of duties.

Response: Management is aware of this control deficiency 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-07

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, 2007.

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-07

Certified Budget: Hospital disbursements during the year ended June 30, 2007, did not exceed budgeted amounts.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Schedule of Findings and Questioned Costs

June 30, 2007

III-C-07

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:

Paid To	Purpose	Amount
Various organizations	Employee recognition banquet	\$14,631

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-07

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

III-E-07

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.

III-F-07

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

III-G-07

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.

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2007

Finding	Status	Corrective Action Plan or Other Explanation
II-A-06	Segregation of duties over accounting functions	Unresolved, similar finding reported at II-B-07

BUENA VISTA REGIONAL MEDICAL CENTER
Storm Lake, Iowa

Audit Staff
For the Year Ended June 30, 2007

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, CPA, Senior Staff Auditor

Sarah A. Terryberry, Staff Auditor