

Buena Vista Regional Medical Center
Storm Lake, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2008 and 2007**

Together with Independent Auditor's Report

Buena Vista Regional Medical Center

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Buena Vista Regional Medical Center

Officials
June 30, 2008

Board of Trustees	Address	Term Expires
Glen Huntington, Chairman	Storm Lake, IA	2012
Edean Murray, Treasurer	Storm Lake, IA	2008
Rick Lampe, Secretary	Storm Lake, IA	2008
Rolf Mosbo	Rembrandt, IA	2008
Mike Sharar	Storm Lake, IA	2012
Keith Movall	Newell, IA	2010
Randy Bobolz	Albert City, IA	2012

Hospital Officials	Address	Term Expires
Todd Hudspeth, CEO	Storm Lake, IA	N/A
Mike Dewerff, CFO	Storm Lake, IA	N/A

Independent Auditor's Report

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

We have audited the basic financial statements of Buena Vista Regional Medical Center (Hospital), as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. 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, 2008 and 2007, and the results of its operations, changes in net assets, 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 19, 2008, 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 audits were 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 19, 2008.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2008 and 2007

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, 2008. Please read it in conjunction with the financial statements in this report, which follow.

Financial Highlights

- BVRMC's total assets increased by approximately \$10,962,000 or 26%, primarily due to the financial results for the year ended June 30, 2008.
- During the year, BVRMC's total operating revenues increased approximately \$1,720,000 to \$34,210,000, or 5%, from the prior year while expenses increased \$2,187,000, or 7.6%, to \$30,945,000. BVRMC had a gain from operations of \$3,264,000 which is 9.5% of total operating revenue. This compares to the prior fiscal year's gain from operations of approximately \$3,732,000.
- BVRMC received \$349,000 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 \$6,650,000. The following is a list of significant items:

<u>Capital Investments</u>	<u>Department</u>	<u>2008 Cost</u>
Construction in Progress	Surgery/Dietary Expansion	\$ 3,509,000
Radiology Equipment	Radiology	634,000
Construction in Progress	OB Department Remodel	413,000
Surgery Equipment	Surgery	375,000
Expansion Property	Administration	252,000
Computer Hardware and Software	Various	79,000

The source of the funding for these projects was derived from operations, capital reserves, revenue bonds, 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

Management's Discussion and Analysis June 30, 2008 and 2007

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

	June 30		Dollar Change	Percent Change
	2008	2007		
Total current assets	\$ 14,208,000	16,154,000	1,946,000	(12)
Net capital assets	19,793,000	16,115,000	3,678,000	23
Other assets, including Funded Depreciation	18,506,000	9,276,000	9,230,000	99
Total assets	\$ 52,507,000	41,545,000	10,962,000	26
Current liabilities	\$ 6,944,000	5,224,000	1,720,000	33
Long-term debt	5,171,000	496,000	4,675,000	942
Total liabilities	12,115,000	5,720,000	6,395,000	112
Net assets	40,392,000	35,825,000	4,567,000	13
Total liabilities and net assets	\$ 52,507,000	41,545,000	10,962,000	26

As can be seen in Table 1, total assets increased by \$10,962,000 to \$52,507,000 in fiscal year 2008, up from \$41,545,000 in fiscal year 2007. The most significant increase was in Long-term debt, which reflects the \$5.1 million Series 2007 Hospital Revenue Bonds related to the Surgery/Dietary Expansion project. The change in total net assets results primarily from operating results in the current year.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2008 and 2007

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, 2008 and 2007.

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

	June 30		Dollar Change	Percent Change
	2008	2007		
Operating revenue:				
Net patient service revenue	\$ 33,059,000	31,348,000	1,710,000	5.5
Other	1,151,000	1,141,000	1,720,000	0.8
Net operating revenue	34,210,000	32,489,000	1,807,000	5.5
Expenses:				
Salaries and employee benefits	17,040,000	15,292,000	1,748,000	11.4
Professional fees	2,425,000	2,406,000	19,000	.8
Supplies and other expenses	9,511,000	9,133,000	378,000	4.1
Depreciation and amortization	1,970,000	1,926,000	44,000	2.3
Total operating expenses	30,946,000	28,757,000	2,189,000	7.6
Operating income	3,264,000	3,732,000	(468,000)	(12.5)
Non-operating Income	1,213,000	1,181,000	32,000	2.7
Net income	4,477,000	4,913,000	(436,000)	(8.9)
Capital Grants and Contributions	90,000	143,000	(53,000)	(37.1)
Net assets – beginning of year	35,825,000	30,769,000	5,056,000	16.4
Net assets – end of year	\$ 40,392,000	35,825,000	4,567,000	12.7

Sources of Revenue

Operating Revenue

During fiscal year 2008, BVRMC derived the majority, or 96.6%, 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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Management's Discussion and Analysis June 30, 2008 and 2007

Table 3 presents the relative percentages of gross charges billed for patient services, by payor, for the fiscal years ended June 30, 2008 and 2007.

Table 3: Payor Mix by Percentage

	Year Ended June 30	
	2008	2007
Medicare	52.0%	53.1%
Medicaid	7.1	6.0
Wellmark	24.1	24.1
Other Commercial	13.6	13.4
Self-pay and other	3.2	3.4
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

	Year Ended June 30	
	2008	2007
Rental Income	\$ 282,000	260,000
Cafeteria/Vending	152,000	121,000
Rebates	222,000	218,000
Grants	171,000	141,000
Fitness Center	127,000	176,000
Contracted Services	60,000	55,000
Other	137,000	170,000
Total	<u>\$ 1,151,000</u>	<u>1,141,000</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 \$850,900 during fiscal year 2008. BVRMC also received \$349,000 in county tax subsidy in fiscal year 2008.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2008 and 2007

Operating and Financial Performance

The following summarizes BVRMC's statements of revenue, expenses, and changes in net assets between 2008 and 2007:

- Overall activity at BVRMC, as measured by patient admissions, decreased by .3% to 2,130 admissions in 2008, from 2,137 admissions in 2007. Patient days increased 1.1% from 9,496 in 2007 to 9,606 in 2008. Total Outpatient procedures in the Emergency, Surgery, Radiology, Laboratory, and Rehab Departments remained steady at 72,123 in 2008 compared to 71,929 in 2007.

Table 5: Patient and Hospital Statistical Data

	Year Ended June 30	
	2008	2007
Total Admissions:		
Acute	1,436	1,416
Newborn	319	270
Swing Bed	163	229
Hope Harbor	212	222
Total Days Care		
Acute	4,727	4,267
Newborn	671	557
Swing Bed	877	1,281
Hope Harbor	3,331	3,391
Average Daily Census		
Acute	12.9	11.7
Newborn	1.8	1.5
Swing Bed	2.4	3.5
Hope Harbor	9.1	9.3
Average Length of Stay		
Acute	3.3	3.0
Newborn	2.1	2.1
Swing Bed	5.4	5.6
Hope Harbor	15.7	15.3
Emergency Room Visits	8,153	7,600
Total Surgical Procedures	3,219	3,011
Total Radiology Procedures	14,786	15,411
Total Laboratory Procedures	89,522	80,891
Home Health Visits	5,806	5,625
Full-time equivalents (FTE's)	310.92	302.9

Total net patient service revenue increased \$1,710,000 or 5.5% in 2008.

Increases in net patient service revenue primarily are due to volume increases in patient days, outpatient surgeries, and procedures. Gross patient revenue increased \$3,049,000, or 6.0% from prior year primarily due to increased patient volume and rate increases, and net patient service revenue increased \$1,710,000, or 5.5% due to increases in gross patient revenue described above. Contractual adjustments as a percent of gross revenue increased slightly from 35.9% in 2007 to 36.4% in 2008.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2008 and 2007

Contractual Adjustments increased over prior year as described in the table below:

Table 6: Contractual Adjustments Summary

	Year Ended June 30	
	2008	2007
Medicare	\$ 12,586,000	13,441,000
Medicaid	1,697,000	1,360,000
Wellmark and other commercial	4,731,000	3,078,000
Other Adjustments and charity care	578,000	365,000
Total	\$ 19,592,000	18,244,000

Days in accounts receivable increased slightly from 53 days in fiscal year 2007 to 55 days in fiscal year 2008.

Salary expenses increased \$949,000 or 7.7% to \$13,322,000 in 2008 from \$12,373,000 in 2007. As a percentage of net patient service revenue, salary expense was 40.3% and 39.5% for the fiscal years ended June 2008 and 2007, respectively.

Employee benefit expense increased \$798,000, or 27.3% from prior year primarily due to an increase of \$455,000 in health insurance cost and hospital IPERS contributions increasing from 5.72% to 6.07%. Employee benefit expense represented 27.9% and 23.6% of salary expenses in fiscal years 2008 and 2007 respectively.

Supplies and other expense increased \$385,000, or 4.2% from prior year. As a percentage of net patient service revenue, supplies expense remained consistent at 29.0% for both fiscal years ended June 2008 and 2007.

Professional fees and Purchased services increased \$20,000, or .8%.

Depreciation increased \$44,000, or 2.3% from \$1,926,000 in 2007, to \$1,970,000 in 2008. Interest expense decreased \$8,000 to \$20,000 in 2008 from \$28,000 in 2007.

Total operating expenses increased by \$2,188,000, or 7.6%, for the year ended June 30, 2008 for the reasons discussed above.

Budgetary Highlights

The official county budget of BVRMC for the year ended June 30, 2008 was prepared on a modified accrual basis. BVRMC expenditures during 2008 and 2007 did not exceed amounts budgeted.

Actual expenditures were lower than the budget by \$4,407,000 due to lower than anticipated operating expenses. Actual revenues were higher than budgeted by \$5,723,000.

Buena Vista Regional Medical Center

Management's Discussion and Analysis June 30, 2008 and 2007

Capital Assets

During fiscal year 2008, BVRMC invested \$6,588,000 in a broad range of capital assets included in Table 7 below.

Table 7: Capital Assets

	June 30		Dollar Change	Percent Change
	2007	2007		
Land and Land Improvements	\$ 1,551,000	1,295,000	256,000	19.8
Buildings and Fixed Equipment	24,640,000	24,384,000	256,000	1.0
Major Movable Equipment	10,952,000	10,041,000	911,000	9.1
Subtotal	37,143,000	35,720,000	1,423,000	4.0
Less: Accumulated Depreciation	22,064,000	20,488,000	1,576,000	7.7
Net Property, Plant, and Equipment	\$ 15,079,000	15,232,000	(153,000)	(1.0)
Construction in Progress	\$ 4,714,000	882,000	3,832,000	435.0

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 and upgraded surgery, emergency, labor and delivery, and computer equipment. The increase in Construction in Progress is due to construction costs for an expansion and remodel of the surgery and nutrition services areas and remodeling of the OB department.

In Table 8, BVRMC's fiscal year 2009 capital budget projects spending up to \$7,200,000 for capital projects. These projects will be primarily financed through 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 2009 Capital Budget

Facility Expansion and Renovation	\$ 4,000,000
Radiology Equipment and remodeling	1,200,000
Computer Hardware and Software	659,000
Surgery Equipment	527,000
Pharmacy Dispensing System	200,000
All other Capital Additions	614,000
Total	\$ 7,200,000

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Management's Discussion and Analysis June 30, 2008 and 2007

Long-Term Debt (including Capital Leases)

At June 30, 2008, BVRMC had \$5,586,000 in short-term and long-term debt. This has increased \$4,828,000 from fiscal year 2007, as a result of the issuance of the 2007 Series Hospital Revenue Bonds used to finance a portion of the surgery/dietary expansion project. More detailed information about BVRMC's long-term liabilities is presented in the notes to the basic financial statements. Total debt outstanding represents approximately 10.6% of BVRMC's total assets at June 30, 2008.

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:

Mike Dewerff, CPA, FHFMA
Chief Financial Officer
Buena Vista Regional Medical Center
1525 W. 5th St.
Storm Lake, IA 50588
(712) 213-8603
dewerff.mike@bvrmc.org

Buena Vista Regional Medical Center

Balance Sheets June 30, 2008 and 2007

ASSETS	2008	2007
Current assets:		
Cash and cash equivalents	\$ 4,753,323	5,397,340
Investments	2,138,957	4,104,177
Receivables -		
Patient, net of allowance for doubtful accounts of \$1,258,000 in 2008 and \$1,000,000 in 2007	4,980,639	4,561,558
Other	208,612	374,127
Inventories	949,531	786,934
Prepaid expenses	153,579	203,385
Succeeding year property tax receivable	335,208	337,540
Internally designated assets	688,241	388,449
Total current assets	<u>14,208,090</u>	<u>16,153,510</u>
Assets limited as to use or restricted:		
Internally designated assets	17,663,874	9,607,828
Bond restricted funds	1,383,142	--
Donor restricted funds	76,531	56,942
	<u>19,123,547</u>	<u>9,664,770</u>
Less amount required to meet current obligations	688,241	388,449
Total assets limited as to use or restricted, net of current portion	<u>18,435,306</u>	<u>9,276,321</u>
Capital assets, net	<u>19,792,674</u>	<u>16,114,700</u>
Deferred financing costs	<u>70,845</u>	<u>--</u>
Total assets	<u>\$ 52,506,915</u>	<u>41,544,531</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 415,184	261,897
Accounts payable	1,577,685	911,359
Accrued salaries and vacation	1,544,568	1,271,287
Accrued health insurance	242,000	152,000
Payroll taxes withheld and other accrued expenses	276,727	241,177
Estimated third-party payor settlements	2,552,430	2,048,298
Deferred revenue for succeeding year property tax receivable	335,208	337,540
Total current liabilities	<u>6,943,802</u>	<u>5,223,558</u>
Long-term liabilities:		
Long term debt, net of current portion	<u>5,170,984</u>	<u>496,170</u>
Total liabilities	<u>12,114,786</u>	<u>5,719,728</u>
Net assets:		
Invested in capital assets, net of related debt	14,206,506	15,356,633
Restricted	76,531	56,942
Unrestricted	<u>26,109,092</u>	<u>20,411,228</u>
Total net assets	<u>40,392,129</u>	<u>35,824,803</u>
Total liabilities and net assets	<u>\$ 52,506,915</u>	<u>41,544,531</u>

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 34,206,417	32,505,873
Provision for bad debt	<u>(1,147,564)</u>	<u>(1,157,431)</u>
Net patient and service revenue	33,058,853	31,348,442
Other operating revenue	<u>1,150,867</u>	<u>1,141,298</u>
Total operating revenue	<u>34,209,720</u>	<u>32,489,740</u>
OPERATING EXPENSES:		
Salaries	13,321,890	12,372,780
Employee benefits	3,717,692	2,919,699
Purchased services and professional fees	2,425,396	2,405,594
Supplies	6,795,106	6,754,140
Other expenses	2,695,761	2,351,717
Depreciation and amortization	1,969,710	1,926,055
Interest	<u>19,928</u>	<u>27,962</u>
Total operating expenses	<u>30,945,483</u>	<u>28,757,947</u>
OPERATING INCOME	<u>3,264,237</u>	<u>3,731,793</u>
NONOPERATING REVENUES, NET:		
County tax revenues	349,132	349,975
Investment income	850,889	746,723
Noncapital grants and contributions	19,939	100,688
Loss on disposal of capital assets	<u>(6,486)</u>	<u>(15,920)</u>
Nonoperating revenues, net	<u>1,213,474</u>	<u>1,181,466</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	4,477,711	4,913,259
CAPITAL GRANTS AND CONTRIBUTIONS	<u>89,615</u>	<u>143,069</u>
INCREASE IN NET ASSETS	4,567,326	5,056,328
NET ASSETS, beginning of year	<u>35,824,803</u>	<u>30,768,475</u>
NET ASSETS, end of year	<u>\$ 40,392,129</u>	<u>35,824,803</u>

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 33,143,904	31,759,174
Cash paid for employee salaries and benefits	(16,660,576)	(14,880,714)
Cash paid to suppliers and contractors	(11,830,513)	(11,533,228)
Other receipts and payments, net	<u>1,316,382</u>	<u>958,206</u>
Net cash provided by operating activities	<u>5,969,197</u>	<u>6,303,438</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	349,132	349,975
Noncapital grants and contributions	<u>19,939</u>	<u>100,688</u>
Net cash provided by noncapital financing activities	<u>369,071</u>	<u>450,663</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions	89,615	143,069
Proceeds from issuance of long-term debt	5,090,000	--
Payments on capital lease obligations	(261,899)	(253,861)
Payments for financing costs	(72,973)	--
Interest payments	(19,928)	(27,962)
Proceeds from the sale of property and equipment	--	14,297
Purchase of property and equipment, net	<u>(5,164,432)</u>	<u>(1,617,760)</u>
Net cash used in capital and related financing activities	<u>(339,617)</u>	<u>(1,742,217)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	850,889	746,723
(Deposits to) withdrawals from investments, net	1,965,220	(935,647)
Deposits to assets limited as to use or restricted, net	<u>(9,458,777)</u>	<u>(2,705,917)</u>
Net cash used in investing activities	<u>(6,642,668)</u>	<u>(2,894,841)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(644,017)	2,117,043
CASH AND CASH EQUIVALENTS - Beginning of year	<u>5,397,340</u>	<u>3,280,297</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u>4,753,323</u>	<u>5,397,340</u>
NONCAPITAL AND RELATED FINANCING ACTIVITIES:		

The Hospital capitalized interest expense in the amount of \$158,597 in 2008

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows (Continued) For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 3,264,237	3,731,793
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	1,969,710	1,926,055
Interest expense included in operating expenses	19,928	27,962
(Increase) decrease in current assets -		
Receivables -		
Patients	(419,081)	(400,852)
Other	165,515	(183,092)
Inventories	(162,597)	9,004
Prepaid expenses	49,806	(46,420)
Increase (decrease) in current liabilities -		
Accounts payable	198,541	15,639
Accrued salaries, vacation, payroll taxes withheld and other	289,006	459,765
Accrued health insurance	90,000	(48,000)
Estimated third-party payor settlements	504,132	811,584
Net cash provided by operating activities	\$ <u>5,969,197</u>	<u>6,303,438</u>

See notes to financial statements

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

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. 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.

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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of the two preceding 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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

H. *Inventories*

Inventories are stated at the lower of cost (first-in, first-out method) or market.

I. *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. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of 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.

J. *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 Hospital Revenue Bond Agreement – These funds are reserve funds held as security for the Series 2007 Hospital Revenue Bonds (Series 2007 bonds) and any unspent bond proceeds. These funds are used for the payment of principal and interest on the Series 2007 bonds when insufficient funds are available.

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

K. *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.

L. *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 is 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

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

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 long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. 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.

M. Deferred Financing Cost

Deferred financing costs related to the issuance of Series 2007 bonds are being amortized over the life of the related bonds under the straight line method. Amortization expense of \$2,128 for 2008 is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net assets.

N. 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, 2008 and 2007, respectively.

O. Deferred Revenue

Although certain revenue is 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.

P. 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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

Q. *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.

R. *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.

S. *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 \$578,243 and \$365,434 for 2008 and 2007, respectively.

T. *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.

U. *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

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

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 October 31, 2005.

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 52.0% and 7.1%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2008, and 53.1% and 6.0%, respectively, for the year ended June 30, 2007. 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, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 13,142,994	11,696,648
Outpatient	34,121,269	32,467,491
Swingbed	1,030,206	1,484,848
Behavioral health	4,269,090	4,064,395
Hospice	<u>1,235,297</u>	<u>1,036,554</u>
Total gross patient service revenue	<u>53,798,856</u>	<u>50,749,936</u>
Contractual adjustments:		
Medicare	12,586,144	13,441,001
Medicaid	1,697,142	1,359,578
Other	4,730,910	3,078,050
Charity care services	<u>578,243</u>	<u>365,434</u>
Total contractual adjustments	<u>19,592,439</u>	<u>18,244,063</u>
Net patient service revenue before provision for bad debt	<u>\$ 34,206,417</u>	<u>32,505,873</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

(3) Bank Deposits and Investments

The Hospital's deposits in banks at June 30, 2008 and 2007 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, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Unrestricted Assets:		
Cash and cash equivalents	\$ 83,858	64,889
Certificates of deposit	2,027,856	3,975,983
Interest receivable	27,243	63,305
	<u>\$ 2,138,957</u>	<u>4,104,177</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, 2008 was six 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, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 6,993,708	3,472,217
Certificates of deposit	10,472,774	5,644,044
US government agencies	24,326	379,404
Interest receivable	173,066	112,163
	<u>\$ 17,663,874</u>	<u>9,607,828</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

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 five months and approximately nineteen years for US government agencies as of June 30, 2008.

By Hospital Revenue Bond Agreement

Cash deposits held as security and unspent bond proceeds for the Series 2007 bonds and unspent bond proceeds as of June 30, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Bond Restricted Assets:		
Cash and cash equivalents	\$ <u>1,383,142</u>	<u>--</u>

By Donor

Cash deposits designated by the donor for future capital improvements and operations, as of June 30, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Donor Restricted Assets:		
Cash and cash equivalents	\$ <u>76,531</u>	<u>56,942</u>

(6) **Composition of Patient Receivables**

Patient receivables as of June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Patient accounts	\$ 8,676,639	7,697,658
Less estimated third-party contractual adjustments	(2,438,000)	(2,136,100)
Less allowance for doubtful accounts	<u>(1,258,000)</u>	<u>(1,000,000)</u>
	<u>\$ 4,980,639</u>	<u>4,561,558</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>2008</u>	<u>2007</u>
Medicare	35%	39%
Medicaid	5	6
Commercial insurance	42	37
Patients and residents	<u>18</u>	<u>18</u>
	<u>100%</u>	<u>100%</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

(7) Capital Assets

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

	June 30, 2007	Additions	Transfers and Disposals	June 30, 2008
Capital assets, not being depreciated,				
Land	\$ 528,068	49,330	--	577,398
Construction in progress	882,218	4,829,911	(998,212)	4,713,917
	<u>1,410,286</u>	<u>4,879,241</u>	<u>(998,212)</u>	<u>5,291,315</u>
Capital assets, being depreciated:				
Land improvements	767,353	205,911	--	973,264
Buildings	21,501,764	265,600	(24,387)	21,742,977
Fixed equipment	2,882,454	19,702	(5,418)	2,896,738
Major movable equipment	10,040,781	1,280,895	(369,662)	10,952,014
Total capital assets, being depreciated	<u>35,192,352</u>	<u>1,772,108</u>	<u>(399,467)</u>	<u>36,564,993</u>
Less accumulated depreciation:				
Land improvements	(470,528)	(55,642)	--	(526,170)
Buildings	(10,500,055)	(839,587)	24,386	(11,315,256)
Fixed equipment	(1,867,068)	(394,992)	3,131	(2,258,929)
Major movable equipment	(7,650,287)	(677,361)	364,369	(7,963,279)
Total accumulated depreciation	<u>(20,487,938)</u>	<u>(1,967,582)</u>	<u>391,886</u>	<u>(22,063,634)</u>
Total capital assets, being depreciated, net	<u>14,704,414</u>	<u>(195,474)</u>	<u>(7,581)</u>	<u>14,501,359</u>
Total capital assets, net	<u>\$ 16,114,700</u>	<u>4,683,767</u>	<u>(1,005,793)</u>	<u>19,792,674</u>
	June 30, 2006	Additions	Transfers and Disposals	June 30, 2007
Capital assets, not being depreciated,				
Land	\$ 513,028	15,040	--	528,068
Construction in progress	153,064	737,822	(8,669)	882,218
	<u>666,092</u>	<u>752,862</u>	<u>(8,669)</u>	<u>1,410,286</u>
Capital assets, being depreciated:				
Land improvements	761,873	5,480	--	767,353
Buildings	21,367,143	147,810	(13,188)	21,501,764
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>35,192,352</u>
Less accumulated depreciation:				
Land improvements	(423,321)	(47,208)	--	(470,528)
Buildings	(9,658,073)	(854,977)	12,996	(10,500,055)
Fixed equipment	(1,471,045)	(399,327)	3,304	(1,867,068)
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>428,864</u>	<u>(20,487,938)</u>
Total capital assets, being depreciated, net	<u>15,774,384</u>	<u>(1,048,401)</u>	<u>(21,568)</u>	<u>14,704,414</u>
Total capital assets, net	<u>\$ 16,440,476</u>	<u>(295,539)</u>	<u>(30,237)</u>	<u>16,114,700</u>

Total depreciation for the year ended June 30, 2008 and 2007, including depreciation on rental property owned by the Hospital, was \$1,967,582 and \$1,926,055, respectively.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

During the fiscal year 2008, the Hospital began the relocation of the nutrition department to an area of the Hospital previously not 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 early 2010. The project is financed with \$5,090,000 in revenue bonds with the difference financed with operations.

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) Long-Term Debt

Capital lease obligations activity of the Hospital as of June 30, 2008 and 2007 consisted of the following:

	June 30, 2007	Borrowings	(Payments)	June 30, 2008	Due Within One Year
Series 2007 hospital revenue bonds (A)	\$ --	5,090,000	--	5,090,000	145,000
Capital lease obligation (B)	758,067	--	(261,899)	496,168	270,184
	<u>\$ 758,067</u>	<u>5,090,000</u>	<u>(261,899)</u>	<u>5,586,168</u>	<u>415,184</u>

	June 30, 2006	Borrowings	(Payments)	June 30, 2007	Due Within One Year
Capital lease obligation (B)	\$ 1,011,928	--	(253,861)	758,067	261,897

- (A) The Medical Center issued \$5,090,000 of Series 2007 Hospital Revenue Bonds. The proceeds of these bonds were used to pay construction and renovation costs. The Series 2007 bonds bear interest at rates ranging from 3.75% to 4.90% payable semi-annually. Annual principal payments are due in amounts ranging from \$145,000 to \$380,000 through December 1, 2027.
- (B) 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:

Year	Principal	Interest	Total
2009	\$ 415,184	246,816	662,000
2010	395,984	232,364	628,348
2011	180,000	222,358	402,358
2012	185,000	215,056	400,056
2013	195,000	207,263	402,263
2014 – 2018	1,100,000	900,113	2,000,113
2019 – 2023	1,370,000	610,991	1,980,991
2024 - 2028	1,745,000	226,125	1,971,125
	<u>\$ 5,586,168</u>	<u>2,861,086</u>	<u>8,447,254</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

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

	<u>2008</u>	<u>2007</u>
Cost	\$ 1,580,666	1,580,666
Less: Accumulated amortization	<u>(1,384,406)</u>	<u>(1,080,967)</u>
Net book value	<u>\$ 196,260</u>	<u>499,699</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 3.90% of their annual salary and the Hospital is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2008 and 2007 were \$777,485 and \$690,763, 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 on 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Fees to affiliate for personnel and services	\$ (215,328)	(193,000)
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, 2008.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 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, 2008 and 2007 follows:

	<u>(Unaudited)</u>	
	<u>2008</u>	<u>2007</u>
Assets	\$ <u>1,256,171</u>	<u>1,042,951</u>
Net assets	\$ <u>1,233,992</u>	<u>980,369</u>

The Hospital received \$89,615 and \$42,634 from the Foundation during the year ended June 30, 2008 and 2007, respectively, for the purchase of property and equipment. The Hospital also received \$0 and \$15,630 from the Foundation for minor equipment during the years ended June 30, 2008 and 2007. As of June 30, 2008, the Foundation has no 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, 2008 and 2007, the Hospital has accumulated funds in excess of actual claims paid of \$99,733 and \$276,148, respectively. These funds, shown under cash, are to be used to pay claims as they are filed in the future. The amount of unpaid claims at June 30, 2008 and 2007 was \$242,000 and \$152,000, respectively.

(15) Physician Recruitment

The Hospital has made physician income guarantee agreements as well as 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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2008 and 2007

The following illustrates amounts advanced under these agreements and applicable amortization expense for 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Recruitment and relocation advances -		
Beginning of year	\$ 240,899	111,011
Advances	42,179	172,485
Interest applied	5,863	12,178
Amortization	<u>(139,437)</u>	<u>(54,775)</u>
End of Year	<u>\$ 149,504</u>	<u>240,899</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.

Buena Vista Regional Medical Center

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, 2008

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable
Amount raised by taxation	\$ 349,132	--	349,132	337,859	11,273
Estimated other revenues / receipts	35,163,677	5,347,052	40,510,729	34,788,093	5,722,636
Expenses / Disbursements	<u>30,945,483</u>	<u>3,064,838</u>	<u>34,010,321</u>	<u>38,417,369</u>	<u>4,407,048</u>
Net	4,567,326	2,282,214	6,849,540	(3,291,417)	<u>\$ 10,140,957</u>
Balance beginning of year	<u>35,824,803</u>	<u>(16,658,516)</u>	<u>19,166,287</u>	<u>22,518,158</u>	
Balance end of year	<u>\$ 40,392,129</u>	<u>(14,376,302)</u>	<u>26,015,827</u>	<u>19,226,741</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.

Schedules of Net Patient Service Revenue
For the Years Ended June 30, 2008 and 2007

	2008						2007					
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total
DAILY PATIENT SERVICES:												
Medical and surgical	\$ 1,937,982	118,791	--	--	89,660	2,146,433	1,664,214	180,733	--	--	76,658	1,921,605
Obstetric	1,195,358	--	--	--	--	1,195,358	979,197	--	--	--	--	979,197
Behavioral health	--	--	--	3,082,687	--	3,082,687	--	--	--	3,035,700	--	3,035,700
Swing Bed	--	--	256,965	--	--	256,965	--	--	325,775	--	--	325,775
Coronary care	514,094	--	--	--	--	514,094	464,376	--	--	--	--	464,376
Hospice	--	--	--	--	889,095	889,095	--	--	--	--	821,856	821,856
	<u>3,647,434</u>	<u>118,791</u>	<u>256,965</u>	<u>3,082,687</u>	<u>978,755</u>	<u>8,084,632</u>	<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>
OTHER NURSING SERVICES:												
Maternal child care	--	12,282	--	--	--	12,282	--	10,506	--	--	--	10,506
Operating and recovery room	3,485,268	4,865,649	2,258	--	--	8,353,175	3,465,936	4,192,410	20,770	--	21,380	7,700,496
Delivery and labor room	--	176,720	--	--	--	176,720	--	141,545	--	--	--	141,545
Medical and surgical supplies	236,133	288,718	5,593	75	2,642	533,161	195,167	305,787	6,127	69	4,230	511,380
Emergency services	25,871	2,308,450	--	1,161	--	2,335,482	20,119	2,076,353	663	1,730	--	2,098,865
Outpatient service	126,630	1,758,457	12,945	8,888	1,248	1,908,168	91,531	1,593,913	10,005	10,074	465	1,705,988
Homecare	--	298,211	--	--	--	298,211	--	284,548	--	--	--	284,548
Private duty nursing	--	48,868	--	--	--	48,868	--	49,405	--	--	--	49,405
Substance abuse	--	--	--	--	--	--	--	38,283	--	--	--	38,283
Cardiac Rehabilitation	--	112,020	--	--	--	112,020	--	139,756	--	--	--	139,756
	<u>3,873,902</u>	<u>9,869,375</u>	<u>20,796</u>	<u>10,124</u>	<u>3,890</u>	<u>13,778,087</u>	<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>
OTHER PROFESSIONAL SERVICES:												
Anesthesiology	172,988	563,557	--	--	--	736,545	152,205	494,802	1,376	--	1,596	649,979
Radiology	112,270	1,994,205	7,119	14,437	2,238	2,130,269	96,023	1,755,822	9,685	13,620	720	1,875,870
Ultrasound	206,184	850,781	2,964	278	1,218	1,061,425	163,081	843,127	6,305	--	255	1,012,768
Nuclear medicine	58,692	1,341,666	1,742	--	--	1,402,100	86,785	1,422,685	14,205	1,120	--	1,524,795
CT scans	200,329	1,817,704	7,863	4,113	1,150	2,031,159	184,405	1,582,760	9,935	2,935	--	1,780,035
Laboratory	864,853	2,281,816	71,210	189,382	9,978	3,417,239	698,116	1,981,054	72,617	197,641	4,780	2,954,208
Blood administration	134,450	96,959	8,825	664	1,992	242,890	104,746	83,867	4,787	--	1,241	194,641
Pharmacy	1,991,715	9,473,330	290,608	805,079	180,407	12,741,139	1,706,941	9,909,865	433,122	666,082	63,846	12,779,856
Electrocardiology	102,511	429,774	1,434	13,378	(382)	546,715	87,660	405,226	2,738	8,837	642	505,103
Electroencephalography	4,155	492,763	--	--	--	496,918	6,671	411,106	--	1,083	--	418,860
Physical therapy	128,883	1,086,805	77,117	22,919	2,690	1,318,414	143,789	1,370,634	140,489	52,269	764	1,707,945
Respiratory therapy	1,449,597	93,539	242,311	116,039	50,333	1,951,819	1,165,326	81,578	332,781	63,456	36,552	1,679,693
Ambulance	111,649	773,821	2,227	4,020	2,238	893,955	130,590	725,700	4,249	1,336	1,176	863,051
ER Physicians	11,351	1,383,337	--	712	--	1,395,400	7,830	1,011,009	--	860	--	1,019,699
Cardiopulmonary	19,710	219,356	1,121	1,410	--	241,597	14,110	229,747	638	967	--	245,462
Occupational therapy	38,782	417,221	31,938	1,048	369	489,358	56,848	389,500	76,735	4,760	245	528,088
Speech therapy	12,447	24,212	5,966	2,800	421	45,846	10,636	23,940	11,846	1,856	148	48,426
Oncology	1,092	737,356	--	--	--	738,448	--	685,524	--	--	--	685,524
Dietary	--	1,077	--	--	--	1,077	--	2,733	--	--	--	2,733
Diabetic education	--	53,824	--	--	--	53,824	346	43,573	--	--	--	43,919
	<u>5,621,658</u>	<u>24,133,103</u>	<u>752,445</u>	<u>1,176,279</u>	<u>252,652</u>	<u>31,936,137</u>	<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>
Gross patient service revenue	\$ <u>13,142,994</u>	<u>34,121,269</u>	<u>1,030,206</u>	<u>4,269,090</u>	<u>1,235,297</u>	<u>53,798,856</u>	<u>11,696,648</u>	<u>32,467,491</u>	<u>1,484,848</u>	<u>4,064,395</u>	<u>1,036,554</u>	<u>50,749,936</u>
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE												
Contractual allowances and other deductions, primarily Medicare and Medicaid						(19,014,196)						(17,878,629)
Charity care services and other discounts, based on charges forgone						(578,243)						(365,434)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT						34,206,417						32,505,873
Provision for bad debt						(1,147,564)						(1,157,431)
NET PATIENT SERVICE REVENUE						<u>33,058,853</u>						<u>31,348,442</u>

Other Operating Revenue
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Rental income	\$ 281,560	259,755
Purchasing rebates	221,918	217,846
Grants	170,706	145,069
Cafeteria	148,411	92,456
Fitness center	126,930	175,758
Lifeline	61,065	48,505
School nurse	60,205	55,421
Coffee shop	31,318	28,835
Miscellaneous	28,540	30,766
Meals on wheels	13,356	27,231
Contracted revenue	3,850	31,414
Vending machines	3,008	28,242
	<u>\$ 1,150,867</u>	<u>1,141,298</u>

Departmental Expenses
For the Years Ended June 30, 2008 and 2007

	2008				2007			
	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	\$ 124,706	--	40,070	164,776	117,002	--	31,402	148,404
Medical and Surgical	1,443,848	--	494,356	1,938,204	1,419,471	--	452,633	1,872,104
Obstetric	751,812	550	443,117	1,195,479	651,832	535	229,447	881,814
Behavioral Health	779,204	104,853	271,978	1,156,035	714,539	102,164	234,782	1,051,485
Coronary Care	369,926	--	124,727	494,653	324,894	--	100,294	425,188
Hospice	260,591	25,444	246,147	532,182	231,040	15,015	220,185	466,240
Operating and Recovery Room	437,388	2,400	805,769	1,245,557	392,701	25,567	684,312	1,102,580
Medical and Surgical Supplies	59,527	--	840,766	900,293	44,325	--	936,166	980,491
Emergency Services	921,159	250	343,233	1,264,642	845,862	750	297,404	1,144,016
Outpatient Services	564,299	1,922	316,941	883,162	541,728	8,109	285,931	835,768
Homecare	366,488	--	142,594	509,082	342,980	1,667	122,041	466,688
Private Duty Nurses	39,017	--	19,672	58,689	54,343	--	21,108	75,451
Substance Abuse	339	--	(537)	(198)	57,625	1,300	18,947	77,872
Cardiac Rehabilitation	104,184	--	40,687	144,871	103,090	--	33,970	137,060
Lifeline	4,281	--	42,842	47,123	3,538	--	31,775	35,313
School	46,274	--	13,926	60,200	47,242	--	11,315	58,557
	<u>6,273,043</u>	<u>135,419</u>	<u>4,186,288</u>	<u>10,594,750</u>	<u>5,892,212</u>	<u>155,107</u>	<u>3,711,712</u>	<u>9,759,031</u>
OTHER PROFESSIONAL SERVICES:								
Anesthesiology	--	--	55,875	55,875	--	--	42,053	42,053
Radiology	710,684	333,327	557,112	1,601,123	571,231	387,030	572,910	1,531,171
Ultrasound	--	9,540	36,380	45,920	--	7,560	29,133	36,693
Nuclear Medicine	--	298,037	96,206	394,243	--	436,169	3,027	439,196
CT Scans	--	--	84,870	84,870	--	--	78,858	78,858
Laboratory	573,233	196,584	485,904	1,255,721	520,009	193,974	408,624	1,122,607
Blood Administration	--	--	131,633	131,633	--	--	99,728	99,728
Pharmacy	258,527	--	3,205,419	3,463,946	218,903	--	3,304,185	3,523,088
Electrocardiology	51,022	17,015	28,484	96,521	45,061	14,190	22,883	82,134
Electroencephalography	73,123	--	40,523	113,646	68,855	--	33,821	102,676
Physical Therapy	511,746	80,039	214,729	806,514	551,170	70,963	194,168	816,301
Respiratory Therapy	225,900	--	144,235	370,135	182,808	--	117,637	300,445
Ambulance	90,627	--	98,074	188,701	90,376	--	81,129	171,505
ER Physicians	--	913,624	6,675	920,299	--	758,438	960	759,398
Cardiopulmonary	30,998	--	18,996	49,994	29,470	--	17,788	47,258
Occupational Therapy	193,892	3,944	64,805	262,641	237,058	--	79,859	316,917
Speech Therapy	515	24,922	155	25,592	2,804	29,793	700	33,297
Oncology	338,140	--	131,939	470,079	318,747	--	111,647	430,394
Fitness Center	152,096	--	95,928	248,024	130,030	--	83,065	213,095
Medical Records	322,665	--	249,305	571,970	322,773	--	248,955	571,728
Specialty Clinics	50,258	--	43,603	93,861	48,044	--	41,590	89,634
Women's Center	93,532	--	37,864	131,396	89,114	--	33,122	122,236
Diabetic education	89,422	--	33,822	123,244	85,790	--	28,072	113,862
Infection control	110,709	--	40,860	151,569	78,304	--	31,212	109,516
	<u>3,877,089</u>	<u>1,877,032</u>	<u>5,903,396</u>	<u>11,657,517</u>	<u>3,590,547</u>	<u>1,898,117</u>	<u>5,665,126</u>	<u>11,153,790</u>
GENERAL SERVICES:								
Dietary	335,959	--	417,900	753,859	272,154	--	263,823	535,977
Plant	238,144	--	641,355	879,499	222,282	--	577,936	800,218
Housekeeping	411,294	--	164,524	575,818	391,759	--	153,416	545,175
Laundry and Linen	165	--	107,008	107,173	138	--	100,944	101,082
	<u>985,562</u>	<u>--</u>	<u>1,330,787</u>	<u>2,316,349</u>	<u>886,333</u>	<u>--</u>	<u>1,096,119</u>	<u>1,982,452</u>
ADMINISTRATIVE SERVICES:	<u>2,186,196</u>	<u>412,945</u>	<u>1,683,571</u>	<u>4,282,712</u>	<u>2,003,688</u>	<u>352,370</u>	<u>1,260,928</u>	<u>3,616,986</u>
NONDEPARTMENTAL:								
Depreciation and Amortization	--	--	1,969,710	1,969,710	--	--	1,926,055	1,926,055
Insurance	--	--	190,700	190,700	--	--	291,671	291,671
Interest	--	--	19,928	19,928	--	--	27,962	27,962
	<u>--</u>	<u>--</u>	<u>2,180,338</u>	<u>2,180,338</u>	<u>--</u>	<u>--</u>	<u>2,245,688</u>	<u>2,245,688</u>
TOTAL EXPENSES	<u>\$ 13,321,890</u>	<u>2,425,396</u>	<u>15,284,380</u>	<u>31,031,666</u>	<u>12,372,780</u>	<u>2,405,594</u>	<u>13,979,573</u>	<u>28,757,947</u>

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2008 and 2007**

ANALYSIS OF AGING

Days Since Discharge	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0 - 60	\$ 6,431,132	74.12 %	5,967,173	77.52 %
61 - 90	697,719	8.04	490,002	6.37
91 - 180	1,019,157	11.75	597,767	7.76
181 - and over	<u>528,631</u>	<u>6.09</u>	<u>642,716</u>	<u>8.35</u>
	8,676,639	100.00 %	7,697,658	100.00 %
Less:				
Allowance for doubtful accounts	(1,258,000)		(1,000,000)	
Allowance for contractual adjustments	<u>(2,438,000)</u>		<u>(2,136,100)</u>	
	\$ <u>4,980,639</u>		<u>4,561,558</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ 1,000,000		640,000	
Provision of uncollectible accounts	1,147,564		1,157,431	
Recoveries of accounts previously written off	322,433		621,370	
Accounts written off	<u>(1,211,997)</u>		<u>(1,418,801)</u>	
Balance, end of year	\$ <u>1,258,000</u>		<u>1,000,000</u>	

Inventories / Prepaid Expenses
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
INVENTORY:		
Pharmacy	\$ 339,836	324,192
Central service	278,608	213,708
Surgery	<u>331,087</u>	<u>249,034</u>
	<u>\$ 949,531</u>	<u>786,934</u>
PREPAID EXPENSES:		
Insurance	\$ 23,520	78,176
Service contracts	63,782	62,275
Dues	28,693	29,234
Other	<u>37,584</u>	<u>33,700</u>
	<u>\$ 153,579</u>	<u>203,385</u>

Financial Statistical Highlights
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Patient days:		
Hospital -		
Adult and pediatric	4,727	4,267
Newborn	671	557
Swing bed - skilled	877	1,281
Hope Harbor	<u>3,331</u>	<u>3,391</u>
	<u>9,606</u>	<u>9,496</u>
Discharges:		
Hospital adult and pediatric	<u>1,432</u>	<u>1,419</u>
Average length of stay:		
Hospital adult and pediatric	3.30	3.01
Observation visits	352	447
Surgical procedures	3,219	3,011
Emergency Room visits	8,153	7,600
Full-time equivalents personnel	310.92	302.91

**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, 2008, and have issued our report thereon dated November 19, 2008. 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 significant deficiencies.

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-08 and II-B-08 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-08 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, 2008, 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 comments, items II-A-07 and II-B-07, have not been resolved.

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 19, 2008.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2008

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.

Material Weakness

II-A-08

Criteria: 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.

Condition: We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.

Effect: Audit entries were required to adjust the net realizable value of accounts receivable and estimated third party payor settlements, health insurance claims incurred but not yet reported, and to record the financing costs associated with the issuance of long-term debt.

Cause: Allowance and accrual balances requiring estimation and judgment were incorrectly recorded.

Recommendation: The Hospital should review and revise its estimation process of the stated allowance and accrual accounts to ensure that financial statements are properly stated.

Response: The Hospital concurs with the recommendation.

Conclusion: Response accepted.

Significant Deficiency

II-B-08

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.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2008

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-08

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2008.

III-B-08

Certified Budget: Hospital disbursements during the year ended June 30, 2008, did not exceed budgeted amounts.

III-C-08

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	\$15,109

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-08

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

III-E-08

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

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2008

III-F-08

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

III-G-08

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

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2008

Finding	Status	Corrective Action Plan or Other Explanation
II-A-07	Allowance estimation and review process	Unresolved, similar finding reported at II-A-08
II-B-07	Segregation of duties over accounting functions	Unresolved, similar finding reported at II-B-08
III-A-07	Official depository	Resolved

Buena Vista Regional Medical Center

Audit Staff

For the Year Ended June 30, 2008

This audit was performed by:

- Brian D. Green, FHFMA, CPA, Partner
- Jeremy J. Behrens, CHFP, CPA, Manager
- LeAnne N. Kaiser, CPA, Staff Auditor
- Becky S. Hoffman, Staff Auditor