

Buena Vista Regional Medical Center
Storm Lake, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2011 and 2010**

Together with Independent Auditor's Report

Buena Vista Regional Medical Center

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Buena Vista Regional Medical Center

Officials
June 30, 2011

Board of Trustees	Address	Term Expires
Rick Lampe, Chairman	Storm Lake, IA	2016
Edean Murray, Treasurer	Storm Lake, IA	2014
Randy Bobolz, Secretary	Albert City, IA	2012
Glen Huntington	Storm Lake, IA	2012
Dan Bacon	Storm Lake, IA	2014
Brenda Halverson	Linn Grove, IA	2012
Paul Monson	Newell, IA	2016

Hospital Officials	Address	Term Expires
Krista Ketcham, CFO, Co-Interim CEO	Storm Lake, IA	Indefinite
Dawn Bach, CCO, Co-Interim CEO	Storm Lake, IA	Indefinite

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Buena Vista Regional Medical Center (Hospital), as of and for the years ended June 30, 2011 and 2010, 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Buena Vista Regional Medical Center as of June 30, 2011 and 2010, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2011, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 8 and page 26 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 financial statements that collectively comprise the Hospital's basic financial statements. 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 our 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, LLP

Omaha, Nebraska,
November 9, 2011

Buena Vista Regional Medical Center

Management's Discussion and Analysis

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, 2011. Please read it in conjunction with the financial statements in this report, which follow.

Financial Highlights

- BVRMC's total assets increased by approximately \$383,000 or 1%, primarily due to the financial results for the year ended June 30, 2011.
- During the year, BVRMC's total operating revenues increased approximately \$2,047,000 to \$41,405,000, or 5%, from the prior year while expenses increased \$3,988,000, or 10%, to \$38,899,000. BVRMC had a gain from operations of \$2,506,000 which is 6% of total operating revenue.
- BVRMC received \$370,000 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 \$3,842,000. The following is a list of significant items:

Department	2011 Cost
Electronic Medical Record Project	\$ 1,547,000
OR	\$ 594,000
House	\$ 255,000
Lab	\$ 230,000
Pharmacy	\$ 194,000
Oncology	\$ 163,000

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 3 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.

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.

Buena Vista Regional Medical Center

Management's Discussion and Analysis

Net Assets

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total current assets	\$ 14,604,000	16,899,000	15,697,000	(2,295,000)	-14%
Net capital assets	26,223,000	25,438,000	24,093,000	785,000	3%
Other assets, including funded depreciation	20,142,000	18,249,000	17,842,000	1,893,000	10%
Total assets	\$ 60,969,000	60,586,000	57,632,000	383,000	1%
Current liabilities	\$ 3,730,000	6,154,000	7,886,000	(2,424,000)	-39%
Long-term debt	5,177,000	5,605,000	6,023,000	(428,000)	-8%
Total liabilities	8,907,000	11,759,000	13,909,000	(2,852,000)	-24%
Net assets	52,062,000	48,827,000	43,723,000	3,235,000	7%
Total liabilities and net assets	\$ 60,969,000	60,586,000	57,632,000	383,000	1%

As can be seen in Table 1, total assets increased by \$383,000 to \$60,969,000 in fiscal year 2011, up from \$60,586,000 in fiscal year 2010. The most significant increase was in net capital assets, which reflects the completion of the \$7.5 million surgery/dietary expansion project. The change in total net assets results primarily from operating results in the current year.

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, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:					
Net patient service revenue	\$ 39,937,000	37,844,000	33,083,000	2,093,000	6%
Other	1,468,000	1,514,000	1,360,000	(46,000)	-3%
Net operating revenue	41,405,000	39,358,000	34,443,000	2,047,000	5%
Expenses:					
Salaries and employee benefits	20,262,000	18,245,000	17,256,000	2,017,000	11%
Professional fees	2,899,000	2,734,000	3,129,000	165,000	6%
Supplies and other expenses	12,480,000	11,440,000	9,807,000	1,040,000	9%
Depreciation, amortization and interest	3,258,000	2,492,000	1,975,000	766,000	31%
Total operating expenses	38,899,000	34,911,000	32,167,000	3,988,000	11%
Operating income	2,506,000	4,447,000	2,276,000	(1,941,000)	-44%
Non-operating Income	565,000	657,000	893,000	(92,000)	-14%
Net income	3,071,000	5,104,000	3,169,000	(2,033,000)	-40%
Capital grants and contributions	164,000	--	162,000	164,000	100%
Net assets – beginning of year	48,827,000	43,723,000	40,392,000	5,104,000	12%
Net assets – end of year	\$ 52,062,000	48,827,000	43,723,000	3,235,000	7%

Buena Vista Regional Medical Center

Management's Discussion and Analysis

Sources of Revenue

Operating Revenue

During fiscal year 2011, BVRMC derived the majority, or 96%, of its total operating 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.

Table 3 presents the relative percentages of gross charges billed for patient services, by payor, for the fiscal years ended June 30, 2011, 2010, and 2009:

Table 3: Payor Mix by Percentage

	Year Ended June 30,		
	2011	2010	2009
Medicare	47.71	46.60	49.50
Medicaid	8.23	9.30	7.40
Wellmark	28.33	31.70	28.50
Other Commercial	12.34	10.20	11.30
Self-pay and other	3.39	2.20	3.30
Total patient revenues	100.00	100.00	100.00

Other Revenue

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

	Year Ended June 30,			Dollar Change	Percent Change
	2011	2010	2009		
Insurance proceeds	\$ 167,000	350,000	--	(183,000)	-52.3%
Rental income	321,000	293,000	291,000	28,000	9.6%
Cafeteria/vending	351,000	317,000	305,000	34,000	10.7%
Rebates	58,000	98,000	161,000	(40,000)	-40.8%
Grants	95,000	66,000	151,000	29,000	43.9%
Fitness center	154,000	121,000	136,000	33,000	27.3%
Contracted services	207,000	170,000	182,000	37,000	21.8%
Other	115,000	99,000	134,000	16,000	16.2%
Total	\$ 1,468,000	1,514,000	1,360,000	(46,000)	-3.0%

Buena Vista Regional Medical Center

Management's Discussion and Analysis

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, corporate bonds, and securities issued by the U.S. Treasury and other federal agencies. These investments earned \$196,000 during fiscal year 2011. BVRMC also received \$370,000 in county tax subsidy in fiscal year 2011.

Operating and Financial Performance

The following summarizes BVRMC's statements of revenue, expenses, and changes in net assets between 2011 and 2010:

Overall activity at BVRMC, as measured by patient admissions, decreased by 6% to 1,916 admissions in 2011, from 2,038 admissions in 2010. Patient days decreased 3% from 8,771 in 2010 to 8,531 in 2011. Total outpatient procedures in the Emergency, Surgery, Radiology, and Laboratory departments increased 2% to 118,437 in 2011 compared to 115,680 in 2010.

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percent Change</u>
Total Admissions:					
Acute	1,306	1,377	1,302	(71)	-5%
Newborn	295	325	259	(30)	-9%
Swing Bed	161	147	143	14	10%
Hope Harbor	154	189	205	(35)	-19%
Total Days Care					
Acute	4,062	4,033	4,033	29	1%
Newborn	649	699	550	(50)	-7%
Swing Bed	672	689	683	(17)	-2%
Hope Harbor	3,148	3,350	3,362	(202)	-6%
Average Daily Census					
Acute	11.20	11.10	11.10	0.10	1%
Newborn	1.78	1.90	1.50	(0.12)	-6%
Swing Bed	1.85	1.90	1.90	(0.05)	-3%
Hope Harbor	8.60	9.20	9.20	(0.60)	-7%
Average Length of Stay					
Acute	3.10	2.90	3.10	0.20	7%
Newborn	2.20	2.20	2.10	--	0%
Swing Bed	4.20	4.70	4.80	(0.50)	-11%
Hope Harbor	20.40	17.70	16.40	2.70	15%
Emergency Room Visits	7,825	7,248	7,954	577	8%
Total Surgical Procedures	3,056	3,330	3,229	(274)	-8%
Total Radiology Procedures	17,925	17,783	17,180	142	1%
Total Laboratory Procedures	89,631	87,319	86,879	2,312	3%
Home Health Visits	6,633	7,004	7,069	(371)	-5%
Full-time equivalents (FTE's)	343.18	322.49	319.53	21	6%

Buena Vista Regional Medical Center

Management's Discussion and Analysis

Total net patient service revenue increased \$2,093,000, or 5%, in 2011 to \$39,937,000.

Gross patient revenue increased \$2,929,000, or 5% from prior year primarily due to increased patient volume and rate increases. Contractual adjustments as a percent of gross revenue increased from 36.4% in 2010 to 36.5% in 2011.

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

	Year Ended June 30			Dollar Change	Percent Change
	2011	2010	2009		
Medicare	\$ 13,233,000	11,778,000	12,478,000	1,455,000	12.4%
Medicaid	1,811,000	1,973,000	1,559,000	(162,000)	-8.2%
Wellmark and other commercial	7,983,000	8,056,000	6,779,000	(73,000)	-0.9%
Other Adjustments and charity care	682,000	738,000	643,000	(56,000)	0.0%
Total	\$ 23,709,000	22,545,000	21,459,000	1,164,000	5.2%

Days in accounts receivable increased from 47 days in fiscal year 2010 to 49 days in fiscal year 2011.

Salary expenses increased \$1,629,000 or 11% to \$16,116,000 in 2011 from \$14,487,000 in 2010. As a percentage of net patient service revenue, salary expense was 40.3% and 38.3% for the fiscal years ended June 2011 and 2010, respectively. Full-time equivalents increased from 322.49 in 2010 to 343.18 in 2011.

Employee benefit expense increased \$388,000, or 10%. Employee benefit expense represented 25.7% and 25.9% of salary expenses in fiscal years 2011 and 2010 respectively.

Supplies and other expense increased \$1,040,000, or 9% from prior year. As a percentage of net patient service revenue, supplies expense increased slightly to 31% in fiscal year 2011, from 30% in fiscal year 2010.

Professional fees and Purchased services increased \$165,000, or 6%, primarily due to bringing MRI services in-house. This service was previously contracted.

Depreciation increased by \$605,000, or 25% in 2011, primarily due to depreciation on construction in OB and Surgery. Interest expense increased \$160,000 to \$254,000 in 2011, primarily due to expensing of the 2007 Revenue Bonds interest, which had previously been capitalized.

Total operating expenses increased by \$3,988,000, or 11.4%, for the year ended June 30, 2011 for the reasons discussed above.

Buena Vista Regional Medical Center

Management's Discussion and Analysis

Capital Assets

During fiscal year 2011, BVRMC invested \$3,842,000 in a broad range of capital assets included in Table 7 below.

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land and Land Improvements	\$ 2,330,000	1,870,000	1,759,000	460,000	25%
Buildings and Fixed Equipment	34,579,000	31,402,000	28,555,000	3,177,000	10%
Major Movable Equipment	15,950,000	13,482,000	11,671,000	2,468,000	18%
Subtotal	52,859,000	46,754,000	41,985,000	6,105,000	13%
Less: Accumulated Depreciation	26,636,000	25,088,000	23,624,000	1,548,000	6%
Net Property, Plant, and Equipment	<u>\$ 26,223,000</u>	<u>21,666,000</u>	<u>18,361,000</u>	<u>4,557,000</u>	21%
Construction in Progress	<u>\$ 576,000</u>	<u>3,772,000</u>	<u>5,732,000</u>	<u>(3,196,000)</u>	-85%

Net property, plant, and equipment increased as a result of the cost of new additions exceeding annual depreciation expense. BVRMC has enhanced existing facilities and upgraded surgery, radiology, labor and delivery, and computer equipment. The decrease in Construction in Progress is due to new construction for an expansion and remodel of the surgery and radiology services and remodeling of the OB department being put into service.

Long-Term Debt (including Capital Leases)

At June 30, 2011, BVRMC had \$5,605,000 in short-term and long-term debt. This has decreased \$417,000 from fiscal year 2010, as a result of payments on existing debt. More detailed information about BVRMC's long-term liabilities is presented in the notes to the basic financial statements. Total debt outstanding represents approximately 9.2% of BVRMC's total assets at June 30, 2011.

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:

Krista Ketcham
Chief Financial Officer
Buena Vista Regional Medical Center
1525 W. 5th St.
Storm Lake, IA 50588
(712) 213-8603
Ketcham.Krista@bvrmc.org

Buena Vista Regional Medical Center

Balance Sheets

June 30, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash and cash equivalents	\$ 4,114,755	6,714,586
Investments	2,969,186	2,818,729
Receivables -		
Patient, net of allowance for doubtful accounts of \$1,607,000 in 2011 and \$1,791,000 in 2010	5,411,576	4,886,283
Other receivables	92,020	43,081
Inventory	1,016,764	1,007,087
Prepaid expenses	305,408	310,888
Succeeding year property tax receivable	366,196	358,145
Internally designated assets	328,268	759,868
Total current assets	<u>14,604,173</u>	<u>16,898,667</u>
Assets limited as to use or restricted:		
Internally designated assets	19,927,231	18,496,971
Bond restricted funds	400,000	400,000
Donor restricted funds	83,053	49,351
	<u>20,410,284</u>	<u>18,946,322</u>
Less amount required to meet current obligations	<u>328,268</u>	<u>759,868</u>
Total assets limited as to use or restricted, net of current portion	<u>20,082,016</u>	<u>18,186,454</u>
Capital assets, net	<u>26,223,189</u>	<u>25,438,013</u>
Deferred financing costs	<u>59,598</u>	<u>63,247</u>
Total assets	<u>\$ 60,968,976</u>	<u>60,586,381</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 428,320	417,479
Accounts payable	735,617	1,565,740
Accrued salaries and vacation	1,579,388	1,442,063
Accrued health insurance	242,000	242,000
Payroll taxes withheld and other accrued expenses	209,637	335,591
Estimated third-party payor settlements	168,361	1,793,330
Deferred revenue for succeeding year property tax receivable	366,196	358,145
Total current liabilities	<u>3,729,519</u>	<u>6,154,348</u>
Long term debt, net of current portion	<u>5,176,981</u>	<u>5,605,301</u>
Total liabilities	<u>8,906,500</u>	<u>11,759,649</u>
Net assets:		
Invested in capital assets, net of related debt	20,617,888	19,415,233
Restricted - expendable	83,053	49,351
Unrestricted	31,361,535	29,362,148
Total net assets	<u>52,062,476</u>	<u>48,826,732</u>
Total liabilities and net assets	<u>\$ 60,968,976</u>	<u>60,586,381</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 41,208,195	39,443,274
Provision for bad debt	<u>(1,271,588)</u>	<u>(1,599,184)</u>
Net patient service revenue	39,936,607	37,844,090
Other operating revenue	<u>1,468,373</u>	<u>1,514,282</u>
Total operating revenue	<u>41,404,980</u>	<u>39,358,372</u>
OPERATING EXPENSES:		
Salaries	16,115,690	14,486,967
Employee benefits	4,146,388	3,758,485
Purchased services and professional fees	2,899,046	2,734,355
Supplies	8,653,504	8,177,133
Other expenses	3,826,962	3,262,774
Depreciation and amortization	3,003,310	2,397,964
Interest	<u>254,418</u>	<u>94,165</u>
Total operating expenses	<u>38,899,318</u>	<u>34,911,843</u>
OPERATING INCOME	<u>2,505,662</u>	<u>4,446,529</u>
NONOPERATING REVENUE:		
County tax revenues	369,955	348,213
Investment income	195,879	294,101
Noncapital grants and contributions	<u>--</u>	<u>15,313</u>
Nonoperating revenue	<u>565,834</u>	<u>657,627</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	3,071,496	5,104,156
CAPITAL GRANTS AND CONTRIBUTIONS	<u>164,248</u>	<u>--</u>
INCREASE IN NET ASSETS	3,235,744	5,104,156
NET ASSETS, beginning of year	<u>48,826,732</u>	<u>43,722,576</u>
NET ASSETS, end of year	<u>\$ 52,062,476</u>	<u>48,826,732</u>

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient services and third party payors	\$ 37,786,345	36,567,804
Cash paid for employee salaries and benefits	(20,254,246)	(18,146,809)
Cash paid to suppliers and contractors	(15,776,392)	(13,993,712)
Other receipts and payments, net	<u>1,467,130</u>	<u>1,702,638</u>
Net cash provided by operating activities	<u>3,222,837</u>	<u>6,129,921</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	369,955	348,213
Noncapital grants and contributions	<u>--</u>	<u>15,313</u>
Net cash provided by noncapital financing activities	<u>369,955</u>	<u>363,526</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments on capital lease obligations	(237,479)	(226,099)
Payments on long-term debt	(180,000)	(170,000)
Interest payments	(250,879)	(94,165)
Purchase of property and equipment, net	<u>(4,105,725)</u>	<u>(4,461,078)</u>
Net cash used in capital and related financing activities	<u>(4,774,083)</u>	<u>(4,951,342)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	195,879	294,101
Deposits to investments, net	(150,457)	(414,479)
Deposits to assets limited as to use or restricted, net	<u>(1,463,962)</u>	<u>(96,758)</u>
Net cash used in investing activities	<u>(1,418,540)</u>	<u>(217,136)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,599,831)	1,324,969
CASH AND CASH EQUIVALENTS - Beginning of year	<u>6,714,586</u>	<u>5,389,617</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 4,114,755</u>	<u>6,714,586</u>
NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
The Hospital capitalized interest expense in the following amounts	--	173,814

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows (Continued) For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 2,505,662	4,446,529
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	3,003,310	2,397,964
Loss on sale of capital assets	47,696	55,138
Interest expense included in operating expenses	254,418	94,165
(Increase) decrease in current assets -		
Receivables -		
Patients	(525,293)	241,448
Other	(48,939)	133,218
Inventories	(9,677)	(70,868)
Prepaid expenses	5,480	(58,751)
Increase (decrease) in current liabilities -		
Accounts payable	(392,683)	310,169
Accrued salaries, vacation, payroll taxes withheld and other	7,832	98,643
Estimated third-party payor settlements	<u>(1,624,969)</u>	<u>(1,517,734)</u>
Net cash provided by operating activities	<u>\$ 3,222,837</u>	<u>6,129,921</u>

See notes to financial statements

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

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

The following is a description of the reporting entity and a summary of significant accounting policies of Buena Vista Regional Medical Center (Hospital). These policies are in accordance with generally accepted accounting principles. The Hospital is a county Critical Access 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.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

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 debt attributable to the acquisition, construction, or improvement of those assets.

Restricted expendable net assets – This component of net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

Unrestricted net assets – This component of net assets consists of net assets not meeting 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 generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable Government Accounting Standards Board (GASB) pronouncements 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 U.S. generally accepted accounting principles 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 and 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 investments in highly liquid instruments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees, donor, or debt agreements.

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 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. *Inventory*

Inventory is stated at the lower of cost, determined by the first-in, first-out method, or market.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

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 the next 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.

J. *Assets Limited as to Use or Restricted*

Assets limited as to use or restricted include the following:

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 assets 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). 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*

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 unless the income is restricted by donor or law.

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 depreciation and amortization in the financial statements. Lives range by capital asset classification as follows:

Land improvements	5 to 20 years
Buildings, improvements, and fixed equipment	3 to 40 years
Major movable equipment	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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

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 long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as capital grants and contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restriction are reported when the donated or acquired long-lived assets are placed in service.

M. Deferred Financing Cost

Deferred financing costs related to the issuance of the Series 2007 bonds are being amortized over the life of the related bonds under the straight line method. Amortization expense of \$3,649 for the years ended June 30, 2011 and 2010 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 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, 2011 and 2010, respectively.

O. Self-Insured Employee Health Benefits

The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

P. Income Taxes

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Buena Vista, Iowa. As such, the Hospital is exempt from paying income taxes. However, the Hospital is subject to federal income tax on any unrelated business income tax.

Q. Excess of Revenue Over Expenses

The statements of revenue, expenses and changes in net assets include excess of revenue over expense as a performance indicator. Changes in unrestricted net assets that are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets.)

R. 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, 2011 and 2010

S. *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.

T. *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.

U. *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 revenue, expenses and changes in net assets. Charges excluded from revenue under the Hospital's charity care policy were \$682,203 and \$737,944 for 2011 and 2010, respectively.

V. *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.

W. *Reclassification*

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 reporting format.

X. *Subsequent Events*

The Hospital considered events occurring through November 9, 2011 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) **Cash, Investments, and Assets Limited as to Use or Restricted**

The Hospital's deposits in banks at June 30, 2011 and 2010 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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

The Hospital manages the following risks in accordance with their formal investment policy:

Credit Risk: The Hospital has invested in certificates of deposit, corporate bonds, and U.S. Government Agency securities. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

Interest Rate Risk: The Hospital has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the Hospital within fifteen months). Funds not identified as operating funds may be invested in investments with maturities in excess of 397 days.

The weighted average duration of investments as of June 30, 2011 is as follows:

Certificates of deposit	8 months
U.S. Government Agencies	16 years
Corporate bonds	8 months

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Hospital's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Investments (operating reserves):		
Cash and cash equivalents	\$ 924	--
Certificates of deposit	1,738,549	2,800,885
Corporate bonds	1,225,000	--
Interest receivable	4,713	17,844
Total investments	<u>\$ 2,969,186</u>	<u>2,818,729</u>
Assets Limited as to Use or Restricted:		
By Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 7,900,674	6,572,458
Certificates of deposit	11,981,367	11,847,743
U.S. government agencies	16,323	21,251
Interest receivable	28,867	55,519
	<u>19,927,231</u>	<u>18,496,971</u>
By Hospital Revenue Bond Agreement:		
Cash and cash equivalents	400,000	400,000
By Donor:		
Cash and cash equivalents	<u>83,053</u>	<u>49,351</u>
Total assets limited as to use or restricted	20,410,284	18,946,322
Less amounts required to meet current obligations	<u>328,268</u>	<u>759,868</u>
Long-term portion	<u>\$ 20,082,016</u>	<u>18,186,454</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 184,255	292,608
Change in unrealized gains, net	11,624	1,493
Total investment return	<u>\$ 195,879</u>	<u>294,101</u>

(3) 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 is as 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, 2009.

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 include prospectively determined rates and discounts from established charges.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 15,077,183	13,979,907
Outpatient	42,170,257	40,166,137
Swingbed	902,858	869,976
Behavioral health	4,395,709	4,464,171
Hospice	2,370,944	2,507,738
Total gross patient service revenue	<u>64,916,951</u>	<u>61,987,929</u>
Contractual adjustments:		
Medicare	13,233,363	11,777,678
Medicaid	1,810,677	1,973,231
Other	7,982,513	8,055,802
Charity care services	682,203	737,944
Total contractual adjustments	<u>23,708,756</u>	<u>22,544,655</u>
Net patient service revenue before provision for bad debt	<u>\$ 41,208,195</u>	<u>39,443,274</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

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 47.7% and 8.2%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2011, and 46.6% and 9.3%, respectively, for the year ended June 30, 2010. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. 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. The 2011 and 2010 net patient service revenue increased approximately \$560,000 and \$1,750,000, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, reviews, and investigations.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Patient receivables	\$ 10,214,576	9,834,283
Less estimated third-party contractual adjustments	(3,196,000)	(3,157,000)
Less allowance for doubtful accounts	<u>(1,607,000)</u>	<u>(1,791,000)</u>
	<u>\$ 5,411,576</u>	<u>4,886,283</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>2011</u>	<u>2010</u>
Medicare	32%	34%
Medicaid	7	8
Commercial insurance	44	38
Patients and residents	17	20
	<u>100%</u>	<u>100%</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

(5) Capital Assets

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

	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
Capital assets, not being depreciated,				
Land	\$ 577,398	27,940	--	605,338
Construction in progress	3,771,505	2,772,270	(5,967,754)	576,021
Total capital assets not being depreciated	<u>4,348,903</u>	<u>2,800,210</u>	<u>(5,967,754)</u>	<u>1,181,359</u>
Capital assets, being depreciated:				
Land improvements	1,292,748	30,632	401,292	1,724,672
Buildings	27,590,557	364,146	3,191,025	31,145,728
Fixed equipment	3,810,908	--	(377,496)	3,433,412
Major movable equipment	13,482,386	647,163	1,244,057	15,373,606
Total capital assets, being depreciated	<u>46,176,599</u>	<u>1,041,941</u>	<u>4,458,878</u>	<u>51,677,418</u>
Less accumulated depreciation:				
Land improvements	(650,546)	(78,593)	13,816	(715,323)
Buildings	(12,854,746)	(1,320,009)	114,312	(14,060,443)
Fixed equipment	(2,697,589)	(184,412)	539,178	(2,342,823)
Major movable equipment	(8,884,608)	(1,416,647)	784,256	(9,516,999)
Total accumulated depreciation	<u>(25,087,489)</u>	<u>(2,999,661)</u>	<u>1,451,562</u>	<u>(26,635,588)</u>
Total capital assets, being depreciated, net	<u>21,089,110</u>	<u>(1,957,720)</u>	<u>5,910,440</u>	<u>25,041,830</u>
Total capital assets, net	<u>\$ 25,438,013</u>	<u>842,490</u>	<u>(57,314)</u>	<u>26,223,189</u>
	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated,				
Land	\$ 577,398	--	--	577,398
Construction in progress	5,731,940	3,502,991	(5,463,426)	3,771,505
Total capital assets not being depreciated	<u>6,309,338</u>	<u>3,502,991</u>	<u>(5,463,426)</u>	<u>4,348,903</u>
Capital assets, being depreciated:				
Land improvements	1,181,249	46,255	65,244	1,292,748
Buildings	24,866,230	69,379	2,654,948	27,590,557
Fixed equipment	3,688,995	21,302	100,611	3,810,908
Major movable equipment	11,671,209	207,574	1,603,603	13,482,386
Total capital assets, being depreciated	<u>41,407,683</u>	<u>344,510</u>	<u>4,424,406</u>	<u>46,176,599</u>
Less accumulated depreciation:				
Land improvements	(585,777)	(64,769)	--	(650,546)
Buildings	(12,174,072)	(1,092,701)	412,027	(12,854,746)
Fixed equipment	(2,517,311)	(184,081)	3,803	(2,697,589)
Major movable equipment	(8,346,738)	(1,052,764)	514,894	(8,884,608)
Total accumulated depreciation	<u>(23,623,898)</u>	<u>(2,394,315)</u>	<u>930,724</u>	<u>(25,087,489)</u>
Total capital assets, being depreciated, net	<u>17,783,785</u>	<u>(2,049,805)</u>	<u>5,355,130</u>	<u>21,089,110</u>
Total capital assets, net	<u>\$ 24,093,123</u>	<u>1,453,186</u>	<u>(108,296)</u>	<u>25,438,013</u>

Total depreciation for the year ended June 30, 2011 and 2010, including depreciation on rental property owned by the Hospital, was \$2,999,661 and \$2,394,315 respectively.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

Construction in progress as of June 30, 2011 consisted of costs related to an automated medication system, soft costs related to potential expansion projects, and various other minor projects. The majority of these projects will be completed in early fiscal year 2012.

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2011 and 2010 consisted of the following:

	<u>June 30,</u> <u>2010</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2011</u>	<u>Due Within</u> <u>One Year</u>
Series 2007 hospital revenue bonds (A)	\$ 4,775,000	--	(180,000)	4,595,000	185,000
Capital lease obligation (B)	1,247,780	--	(237,479)	1,010,301	243,320
	<u>\$ 6,022,780</u>	<u>--</u>	<u>(417,479)</u>	<u>5,605,301</u>	<u>428,320</u>
	<u>June 30,</u> <u>2009</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2010</u>	<u>Due Within</u> <u>One Year</u>
Series 2007 hospital revenue bonds (A)	\$ 4,945,000	--	(170,000)	4,775,000	180,000
Capital lease obligation (B)	1,473,879	--	(226,099)	1,247,780	237,479
	<u>\$ 6,418,879</u>	<u>--</u>	<u>(396,099)</u>	<u>6,022,780</u>	<u>417,479</u>

(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 4.05% to 4.90% payable semi-annually. Annual principal payments are due in amounts ranging from \$185,000 to \$380,000 through December 1, 2027.

(B) Capital lease obligation at 2.46% interest, payable in quarterly installments of \$66,500 through April 2015, collateralized by leased equipment.

Scheduled principal and interest repayments on long-term debt obligation are as follows:

	<u>Long-Term</u> <u>Debt</u> <u>Principal</u>	<u>Capital</u> <u>Lease</u> <u>Principal</u>	<u>Interest</u>
2012	\$ 185,000	243,320	237,738
2013	195,000	249,417	223,848
2014	200,000	255,609	209,360
2015	210,000	261,955	194,197
2016	220,000	--	180,688
2017 – 2021	1,255,000	--	737,470
2022 – 2026	1,585,000	--	392,329
2027 – 2028	745,000	--	37,625
	<u>\$ 4,595,000</u>	<u>1,010,301</u>	<u>2,213,255</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

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

	<u>2011</u>	<u>2010</u>
Cost	\$ 2,108,677	2,108,677
Less: Accumulated amortization	<u>(1,945,532)</u>	<u>(1,825,518)</u>
Net book value	<u>\$ 163,145</u>	<u>283,159</u>

(7) 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, Iowa, 50306-9117.

Plan members are required to contribute 4.50% and 4.30% of their annual covered salary and the Hospital is required to contribute 6.95% and 6.65% of annual covered salary for 2011 and 2010, respectively. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$1,118,087, \$963,940, and \$870,287 respectively.

(8) Affiliated Organization

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement the Hospital's former Chief Executive Officer was an employee of Trinity and the Hospital reimbursed 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.

The following is a list of year end balances and transactions between the Hospital and these affiliates for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Fees to affiliate for personnel and services	\$ <u>510,589</u>	<u>271,456</u>

(9) 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, 2011.

(10) 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 \$4,000,000 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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

(11) 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, 2011 and 2010 follows:

	<u>(Unaudited)</u>	
	<u>2011</u>	<u>2010</u>
Assets	\$ <u>3,317,869</u>	<u>3,176,524</u>
Net assets	\$ <u>3,301,086</u>	<u>3,167,174</u>

The Hospital received \$165,348 and \$-0- from the Foundation during the year ended June 30, 2011 and 2010, respectively, for the purchase of property and equipment. As of June 30, 2011, the Foundation has no pledges receivable related to Hospital projects.

(12) 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, 2011 and 2010, the Hospital has accumulated funds in excess of actual claims paid of \$501,900 and \$499,906, 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, 2011 and 2010 was \$242,000.

(13) Contingencies

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.

(14) Sufficient Estimates and Concentrations

Current Economic Conditions

The current protracted economic environment continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2011 and 2010

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Buena Vista Regional Medical Center

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

For the Year Ended June 30, 2011

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 369,955	--	369,955	358,144	11,811
Estimated other revenues / receipts	41,765,107	(2,315,753)	39,449,354	39,290,856	158,498
Expenses / Disbursements	<u>38,899,318</u>	<u>1,905,403</u>	<u>40,804,721</u>	<u>36,925,020</u>	<u>(3,879,701)</u>
Net	3,235,744	(4,221,156)	(985,412)	2,723,980	\$ <u>(3,709,392)</u>
Balance beginning of year	<u>48,826,732</u>	<u>(20,347,095)</u>	<u>28,479,637</u>	<u>35,649,888</u>	
Balance end of year	\$ <u><u>52,062,476</u></u>	<u><u>(24,568,251)</u></u>	<u><u>27,494,225</u></u>	<u><u>38,373,868</u></u>	

Notes to the required supplementary information – Budgetary reporting:

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.

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.

For the year ended June 30, 2011, the Hospital's expenditures did exceed the amount budgeted.

Schedules of Patient Service Revenue
For the Years Ended June 30, 2011 and 2010

	2011						2010					
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total
DAILY PATIENT SERVICES:												
Medical and surgical	\$ 1,885,075	229,110	--	--	40,540	2,154,725	1,776,244	186,712	--	--	39,680	2,002,636
Obstetric	1,185,825	--	--	--	--	1,185,825	1,232,168	--	--	--	--	1,232,168
Behavioral health	--	33,930	--	3,148,000	--	3,181,930	--	--	--	3,265,275	--	3,265,275
Swing Bed	--	--	216,203	--	--	216,203	--	--	198,974	--	--	198,974
Coronary care	468,311	--	--	--	--	468,311	431,313	--	--	--	--	431,313
Hospice	--	--	--	--	1,879,678	1,879,678	--	--	--	--	1,981,175	1,981,175
	<u>3,539,211</u>	<u>263,040</u>	<u>216,203</u>	<u>3,148,000</u>	<u>1,920,218</u>	<u>9,086,672</u>	<u>3,439,725</u>	<u>186,712</u>	<u>198,974</u>	<u>3,265,275</u>	<u>2,020,855</u>	<u>9,111,541</u>
OTHER NURSING SERVICES:												
Maternal child care	--	5,876	--	--	--	5,876	--	12,336	--	--	--	12,336
Operating and recovery room	2,864,229	6,136,884	2,468	--	--	9,003,581	4,260,850	6,314,698	--	--	--	10,575,548
Delivery and labor room	--	218,807	--	--	--	218,807	--	302,607	--	--	--	302,607
Medical and surgical supplies	2,736,941	928,798	5,986	55	5,637	3,677,417	802,828	491,639	4,059	--	4,105	1,302,631
Emergency services	113	2,658,713	--	--	--	2,658,826	4,491	2,611,089	--	--	315	2,615,895
Outpatient service	73,773	1,755,426	9,599	5,942	840	1,845,580	99,435	1,658,680	6,550	6,036	306	1,771,007
Homecare	--	429,833	--	--	--	429,833	--	413,584	--	--	--	413,584
Private duty nursing	--	45,200	--	--	--	45,200	--	44,947	--	--	--	44,947
Cardiac Rehabilitation	--	178,534	--	--	--	178,534	--	130,642	--	--	--	130,642
	<u>5,675,056</u>	<u>12,358,071</u>	<u>18,053</u>	<u>5,997</u>	<u>6,477</u>	<u>18,063,654</u>	<u>5,167,604</u>	<u>11,980,222</u>	<u>10,609</u>	<u>6,036</u>	<u>4,726</u>	<u>17,169,197</u>
OTHER PROFESSIONAL SERVICES:												
Anesthesiology	207,221	661,065	--	--	--	868,286	242,681	665,444	--	--	--	908,125
Radiology	113,915	3,529,948	5,049	10,756	418	3,660,086	105,000	3,350,452	5,315	9,321	968	3,471,056
Ultrasound	151,051	977,109	4,671	--	--	1,132,831	182,073	945,911	986	256	1,176	1,130,402
Nuclear medicine	100,051	1,838,470	4,574	--	--	1,943,095	76,944	1,611,747	1,225	--	--	1,689,916
CT scans	288,750	1,923,409	7,597	--	--	2,219,756	239,430	2,127,433	8,481	3,076	--	2,378,420
Laboratory	793,972	2,736,078	53,678	219,828	7,001	3,810,557	786,927	2,571,227	62,904	223,353	12,293	3,656,704
Blood administration	149,887	179,467	6,713	723	852	337,642	123,970	142,159	6,020	947	8,114	281,210
Pharmacy	2,159,232	10,952,289	253,243	889,006	405,919	14,659,689	2,063,693	10,178,727	259,827	856,767	425,865	13,784,879
Electrocardiology	75,936	441,070	1,900	6,546	125	525,577	103,562	451,742	957	9,664	143	566,068
Electroencephalography	1,624	535,242	--	406	--	537,272	1,970	565,547	--	--	--	567,517
Physical therapy	181,794	1,194,759	86,120	26,633	1,665	1,490,971	145,636	1,174,591	81,609	22,777	3,988	1,428,601
Respiratory therapy	1,431,289	336,372	188,185	77,191	22,433	2,055,470	1,137,011	102,837	184,958	58,636	18,615	1,502,057
Ambulance	121,196	995,883	3,748	2,627	4,175	1,127,629	86,973	936,215	4,728	386	6,716	1,035,018
ER Physicians	--	1,702,312	--	--	--	1,702,312	1,255	1,573,837	--	--	193	1,575,285
Cardiopulmonary	--	13	--	--	--	13	6,330	232,068	200	1,817	--	240,415
Occupational therapy	75,939	465,855	49,184	3,670	895	595,543	59,072	402,921	39,904	2,727	993	505,617
Speech therapy	10,481	32,408	3,940	4,326	--	51,155	10,051	34,542	3,279	3,133	287	51,292
Oncology	578	989,563	--	--	766	990,907	--	868,892	--	--	2,806	871,698
Dietary	--	15,736	--	--	--	15,736	--	14,619	--	--	--	14,619
Diabetic education	--	41,802	--	--	--	41,802	--	47,914	--	--	--	47,914
Infection Control	--	296	--	--	--	296	--	378	--	--	--	378
	<u>5,862,916</u>	<u>29,549,146</u>	<u>668,602</u>	<u>1,241,712</u>	<u>444,249</u>	<u>37,766,625</u>	<u>5,372,578</u>	<u>27,999,203</u>	<u>660,393</u>	<u>1,192,860</u>	<u>482,157</u>	<u>35,707,191</u>
Gross patient service revenue	\$ 15,077,183	42,170,257	902,858	4,395,709	2,370,944	64,916,951	13,979,907	40,166,137	869,976	4,464,171	2,507,738	61,987,929
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE												
Contractual allowances and other deductions, primarily Medicare and Medicaid						(23,026,553)						(21,806,711)
Charity care services and other discounts, based on charges forgone						(682,203)						(737,944)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT						41,208,195						39,443,274
Provision for bad debt						(1,271,588)						(1,599,184)
NET PATIENT SERVICE REVENUE						\$ 39,936,607						37,844,090

Other Operating Revenue
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cafeteria	\$ 349,493	314,457
Rental income	321,276	293,130
School nurse	207,431	170,151
Insurance proceeds	167,407	350,000
Fitness center	154,205	121,491
Grants	94,677	65,547
Lifeline	69,177	67,718
Purchasing rebates	58,438	97,720
Miscellaneous	57,673	51,652
Coffee shop	30,679	30,916
Contracted revenue	4,590	3,986
Vending machines	1,023	2,328
Meals on wheels	--	324
Loss on sale of capital assets	(47,696)	(55,138)
	<u>\$ 1,468,373</u>	<u>1,514,282</u>

Departmental Expenses
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	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	\$ 134,247	--	38,730	172,977	126,374	--	40,870	167,244
Medical and Surgical	1,611,378	--	535,256	2,146,634	1,451,672	--	497,741	1,949,413
Obstetric	850,041	625	365,052	1,215,718	807,667	632	351,435	1,159,734
Behavioral Health	940,596	117,191	311,598	1,369,385	810,253	113,793	266,592	1,190,638
Coronary Care	482,388	--	147,135	629,523	407,988	--	138,631	546,619
Hospice	389,038	27,717	427,627	844,382	318,406	31,375	470,063	819,844
Operating and Recovery Room	619,584	2,400	1,190,547	1,812,531	529,460	2,400	1,237,382	1,769,242
Medical and Surgical Supplies	75,192	--	1,509,604	1,584,796	68,959	--	1,428,187	1,497,146
Emergency Services	1,122,776	600	408,632	1,532,008	1,047,086	--	382,588	1,429,674
Outpatient Services	682,173	--	483,412	1,165,585	605,015	2,034	430,446	1,037,495
Homecare	441,082	--	186,926	628,008	439,409	--	188,173	627,582
Private Duty Nurses	29,657	--	17,284	46,941	29,530	--	17,395	46,925
Cardiac Rehabilitation	152,308	--	52,193	204,501	125,161	--	41,675	166,836
Lifeline	2,288	--	61,336	63,624	3,445	--	53,907	57,352
School	168,393	--	45,469	213,862	134,093	--	37,977	172,070
	<u>7,701,141</u>	<u>148,533</u>	<u>5,780,801</u>	<u>13,630,475</u>	<u>6,904,518</u>	<u>150,234</u>	<u>5,583,062</u>	<u>12,637,814</u>
OTHER PROFESSIONAL SERVICES:								
Anesthesiology	--	--	71,302	71,302	--	--	82,060	82,060
Radiology	739,587	775,504	607,525	2,122,616	702,214	755,159	583,504	2,040,877
Ultrasound	--	4,020	30,891	34,911	--	5,070	34,302	39,372
Nuclear Medicine	--	8,973	189,982	198,955	--	65,121	90,761	155,882
CT Scans	--	--	99,584	99,584	--	--	99,399	99,399
Laboratory	659,986	231,557	621,783	1,513,326	632,975	238,562	554,368	1,425,905
Blood Administration	--	--	203,839	203,839	--	--	190,408	190,408
Pharmacy	444,178	--	3,507,274	3,951,452	400,751	--	3,220,112	3,620,863
Electrocardiology	53,432	12,452	41,027	106,911	43,174	20,365	33,518	97,057
Electroencephalography	71,541	--	72,625	144,166	73,959	--	42,825	116,784
Physical Therapy	608,108	6,369	222,622	837,099	576,749	4,821	206,204	787,774
Respiratory Therapy	283,665	--	207,025	490,690	226,414	--	162,228	388,642
Ambulance	145,666	--	135,058	280,724	161,277	--	128,751	288,028
ER Physicians	--	1,239,754	38,131	1,277,885	--	1,141,920	36,271	1,178,191
Cardiopulmonary	--	--	--	--	24,965	--	26,142	51,107
Occupational Therapy	237,305	1,195	78,485	316,985	190,374	1,317	66,875	258,566
Speech Therapy	552	25,933	171	26,656	728	32,099	361	33,188
Oncology	340,223	--	131,967	472,190	375,531	--	147,162	522,693
Fitness Center	183,986	--	100,442	284,428	170,275	--	87,773	258,048
Medical Records	335,500	--	240,644	576,144	326,235	--	262,684	588,919
Specialty Clinics	50,827	--	37,018	87,845	48,251	--	39,446	87,697
Women's Center	106,981	--	41,421	148,402	98,810	--	36,473	135,283
Diabetic education	80,776	--	30,439	111,215	75,135	--	25,737	100,872
Infection control	138,228	--	52,830	191,058	126,350	--	70,287	196,637
	<u>4,480,541</u>	<u>2,305,757</u>	<u>6,762,085</u>	<u>13,548,383</u>	<u>4,254,167</u>	<u>2,264,434</u>	<u>6,225,651</u>	<u>12,744,252</u>
GENERAL SERVICES:								
Dietary	506,004	--	597,051	1,103,055	477,741	--	561,699	1,039,440
Plant	299,948	--	872,548	1,172,496	297,788	--	679,762	977,550
Housekeeping	491,957	--	189,559	681,516	441,810	--	175,763	617,573
Laundry and Linen	126	--	118,075	118,201	164	--	100,122	100,286
	<u>1,298,035</u>	<u>--</u>	<u>1,777,233</u>	<u>3,075,268</u>	<u>1,217,503</u>	<u>--</u>	<u>1,517,346</u>	<u>2,734,849</u>
ADMINISTRATIVE SERVICES:	<u>2,635,973</u>	<u>444,756</u>	<u>2,112,309</u>	<u>5,193,038</u>	<u>2,110,779</u>	<u>319,687</u>	<u>1,679,474</u>	<u>4,109,940</u>
NONDEPARTMENTAL:								
Depreciation and Amortization	--	--	3,003,310	3,003,310	--	--	2,397,964	2,397,964
Insurance	--	--	194,426	194,426	--	--	192,860	192,860
Interest	--	--	254,418	254,418	--	--	94,165	94,165
	<u>--</u>	<u>--</u>	<u>3,452,154</u>	<u>3,452,154</u>	<u>--</u>	<u>--</u>	<u>2,684,989</u>	<u>2,684,989</u>
TOTAL EXPENSES	<u>\$ 16,115,690</u>	<u>2,899,046</u>	<u>19,884,582</u>	<u>38,899,318</u>	<u>14,486,967</u>	<u>2,734,355</u>	<u>17,690,521</u>	<u>34,911,843</u>

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2011 and 2010**

ANALYSIS OF AGING:

Days Since Discharge	2011		2010	
	Amount	Percent of Total	Amount	Percent of Total
0 - 60	\$ 7,485,145	73.28 %	7,325,318	74.49 %
61 - 120	1,518,642	14.87	1,186,013	12.06
121 - 180	578,606	5.66	513,236	5.22
181 - and over	<u>632,183</u>	<u>6.19</u>	<u>809,716</u>	<u>8.23</u>
	10,214,576	100.00 %	9,834,283	100.00 %
Less:				
Allowance for doubtful accounts	(1,607,000)		(1,791,000)	
Allowance for contractual adjustments	<u>(3,196,000)</u>		<u>(3,157,000)</u>	
	\$ <u>5,411,576</u>		<u>4,886,283</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 1,791,000	1,860,236
Provision of uncollectible accounts	1,271,588	1,599,184
Recoveries of accounts previously written off	535,216	349,345
Accounts written off	<u>(1,990,804)</u>	<u>(2,017,765)</u>
Balance, end of year	\$ <u>1,607,000</u>	<u>1,791,000</u>

**Inventory / Prepaid Expenses
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
INVENTORY:		
Pharmacy	\$ 378,967	372,871
Central service	285,882	268,867
Surgery	<u>351,915</u>	<u>365,349</u>
	\$ <u>1,016,764</u>	<u>1,007,087</u>
PREPAID EXPENSES:		
Insurance	\$ 31,058	59,165
Service contracts	141,247	126,002
Dues	92,026	74,577
Other	<u>41,077</u>	<u>51,144</u>
	\$ <u>305,408</u>	<u>310,888</u>

**Financial Statistical Highlights
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Patient days:		
Hospital -		
Adult and pediatric	4,062	4,033
Newborn	649	699
Swing bed - skilled	672	689
Hope Harbor	<u>3,148</u>	<u>3,350</u>
	<u>8,531</u>	<u>8,771</u>
Discharges:		
Hospital adult and pediatric	<u>1,303</u>	<u>1,350</u>
Average length of stay:		
Hospital adult and pediatric	3.12	2.99
Observation visits	472	375
Surgical procedures	3,056	3,330
Emergency Room visits	7,825	7,248
Full-time equivalents personnel	343.18	322.49

**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, 2011, and have issued our report thereon dated November 9, 2011. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item II-A-11, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011, 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.

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, LLP

Omaha, Nebraska,
November 9, 2011.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2011

Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the financial statements.
- b. One significant deficiency in internal control over financial reporting was 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.

Significant Deficiency

II-A-11

<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 net realizable value of accounts receivable, the allowance for doubtful accounts, and the estimated amounts due to/from third party payors.
<i>Cause:</i>	Allowance balances requiring estimation and judgment were incorrectly recorded.
<i>Recommendation:</i>	The Hospital should review and revise its estimation process of the stated accounts to ensure that financial statements are properly stated.
<i>Response:</i>	The Hospital concurs with the recommendation and will review its estimation processes and procedures.
<i>Conclusion:</i>	Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

III-A-11

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, 2011.

III-B-11

Certified Budget: Hospital disbursements during the year ended June 30, 2011, did exceed budgeted amounts.

Recommendation: Management should periodically review budget estimates to actual activity and make appropriate revisions when necessary.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2011

Responses: The reported budget for the fiscal year ending June 30, 2011 inadvertently excluded budgeted amounts for capital expenditures. Management identified the reporting difference and has made the appropriate adjustments to the reported budget for the fiscal year ending June 30, 2012.

Conclusion: Response accepted

III-C-11

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	\$16,686

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-11

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

III-E-11

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-11

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

III-G-11

Deposits and Investments:

Questionable Expenditures: Chapter 12B and Chapter 12C of the Code of Iowa require a written resolution that specifically name each depository institution and specify the maximum amount to be kept on deposit in each depository. During the audit, we noted no instances where the Medical Center had funds at depositories that were not specifically listed on the depository resolution approved by the Board of Trustees

Buena Vista Regional Medical Center

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011**

Finding	Status	Corrective Action Plan or Other Explanation
II-A-10	Allowance estimation and review process	Unresolved, similar finding reported at II-A-11

Buena Vista Regional Medical Center

Audit Staff

For the Year Ended June 30, 2011

This audit was performed by:

- Brian D. Green, FHFMA, CPA, Partner
- Jeremy J. Behrens, CHFP, CPA, Manager
- Brandon W. Arp, CPA, Staff Auditor
- Morgan L. Meyer, Staff Auditor