

Buena Vista Regional Medical Center
Storm Lake, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2012 and 2011**

Together with Independent Auditor's Report

Buena Vista Regional Medical Center

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Buena Vista Regional Medical Center

Officials

June 30, 2012

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
Rob Colerick, CEO	Storm Lake, IA	Indefinite
Krista Ketcham, CFO	Storm Lake, IA	Indefinite
Dawn Bach, CCO	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, 2012 and 2011, 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 audits 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. Those standards 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 the Hospital as of June 30, 2012 and 2011, 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 for the year ended June 30, 2012, our report dated November 12, 2012 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, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 8 and budgetary comparison information on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplementary information included in Exhibits 1 - 6 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of

management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Exhibits 1 – 6 are fairly stated in all material respects in relation to the financial statements as a whole.

SEIM JOHNSON, LLP

Omaha, Nebraska,
November 12, 2012.

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, 2012. Please read it in conjunction with the financial statements in this report, which follow.

Financial Highlights

- BVRMC's total assets increased by approximately \$1,072,000 or 2%, primarily due to the financial results for the year ended June 30, 2012.
- During the year, BVRMC's total operating revenues decreased approximately \$1,030,000 to \$40,375,000, or 2%, from the prior year while expenses increased \$1,067,000, or 3%, to \$39,966,000. BVRMC had a gain from operations of \$409,000 which is 1% of total operating revenue.
- BVRMC received \$385,000 in County tax subsidies during the year that were used to fund the expense of operating 5 ambulances located in Storm Lake, Sioux Rapids, and Albert City.
- During the fiscal year, BVRMC made capital investments for a total of approximately \$1,890,000. The following is a list of significant items:

<u>Department</u>	<u>2012 Cost</u>
Information Services	\$ 581,000
Diagnostic Imaging	\$ 213,000
Plant	\$ 197,000
House Purchase	\$ 173,000
A5 Anesthesia Machine	\$ 144,000
Ambulance	\$ 138,000

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

Required Financial Statements

- The basic financial statements of BVRMC report information about BVMRC using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities.
- The Balance Sheets include all of BVRMC's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to BVRMC creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of BVRMC, and assessing the liquidity and financial flexibility of BVRMC.
- All of the current year's revenues and expenses are accounted for in the Statements of Revenue, Expenses, and Changes in Net Assets. This statement measures improvements in BVRMC's operations over the past 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>2012</u>	<u>2011</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total current assets	\$ 17,570,000	14,604,000	16,899,000	2,966,000	20%
Net capital assets	24,627,000	26,223,000	25,438,000	(1,596,000)	-6%
Other assets, including funded depreciation	<u>19,844,000</u>	<u>20,142,000</u>	<u>17,842,000</u>	<u>(298,000)</u>	-1%
Total assets	<u>\$ 62,041,000</u>	<u>60,969,000</u>	<u>60,586,000</u>	<u>1,072,000</u>	2%
Current liabilities	\$ 4,063,000	3,730,000	6,154,000	333,000	9%
Long-term debt	<u>4,733,000</u>	<u>5,177,000</u>	<u>5,605,000</u>	<u>(444,000)</u>	-9%
Total liabilities	8,796,000	8,907,000	11,759,000	(111,000)	-1%
Net assets	<u>53,245,000</u>	<u>52,062,000</u>	<u>48,827,000</u>	<u>1,183,000</u>	2%
Total liabilities and net assets	<u>\$ 62,041,000</u>	<u>60,969,000</u>	<u>60,586,000</u>	<u>1,072,000</u>	2%

As can be seen in Table 1, total assets increased by \$1,072,000 to \$62,041,000 in fiscal year 2012, up from \$60,969,000 in fiscal year 2011. The most significant increase was in total current assets, which reflects an increase in cash and receivables. 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, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:					
Net patient service revenue	\$ 38,413,000	39,937,000	37,844,000	(1,524,000)	-4%
Other	<u>1,962,000</u>	<u>1,468,000</u>	<u>1,514,000</u>	<u>494,000</u>	34%
Net operating revenue	<u>40,375,000</u>	<u>41,405,000</u>	<u>39,358,000</u>	<u>(1,030,000)</u>	-2%
Expenses:					
Salaries and employee benefits	21,152,000	20,262,000	18,245,000	890,000	4%
Professional fees	3,146,000	2,899,000	2,734,000	247,000	9%
Supplies and other expenses	11,957,000	12,480,000	11,440,000	(523,000)	-4%
Depreciation, amortization and interest	<u>3,711,000</u>	<u>3,258,000</u>	<u>2,492,000</u>	<u>453,000</u>	14%
Total operating expenses	<u>39,966,000</u>	<u>38,899,000</u>	<u>34,911,000</u>	<u>1,067,000</u>	3%
Operating income	409,000	2,506,000	4,447,000	(2,097,000)	-84%
Non-operating Income	<u>535,000</u>	<u>565,000</u>	<u>657,000</u>	<u>(30,000)</u>	-5%
Excess of revenue and expenses before capital grants and contributions	944,000	3,071,000	5,104,000	(2,127,000)	-69%
Capital grants and contributions	239,000	164,000	--	75,000	100%
Net assets – beginning of year	<u>52,062,000</u>	<u>48,827,000</u>	<u>43,723,000</u>	<u>3,235,000</u>	7%
Net assets – end of year	<u>\$ 53,245,000</u>	<u>52,062,000</u>	<u>48,827,000</u>	<u>1,183,000</u>	2%

Buena Vista Regional Medical Center

Management's Discussion and Analysis

Sources of Revenue

Operating Revenue

During fiscal year 2012, BVRMC derived the majority, or 95%, 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, 2012, 2011, and 2010:

Table 3: Payor Mix by Percentage

	Year Ended June 30,		
	2012	2011	2010
Medicare	46.46	47.71	46.60
Medicaid	8.14	8.23	9.30
Wellmark	30.02	28.33	31.70
Other Commercial	12.06	12.34	10.20
Self-pay and other	3.32	3.39	2.20
Total patient revenues	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Other Revenue

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

	Year Ended June 30,			Dollar Change	Percent Change
	2012	2011	2010		
Cafeteria/vending	\$ 403,000	351,000	317,000	52,000	14.8%
Rental income	312,000	321,000	293,000	(9,000)	-2.8%
Electronic health record incentive payment	267,000	--	--	267,000	100.0%
Contracted services	226,000	207,000	170,000	19,000	9.2%
Fitness center	185,000	154,000	121,000	31,000	20.1%
340B	107,000	--	--	107,000	100.0%
Grants	103,000	95,000	66,000	8,000	8.4%
Rebates	46,000	58,000	98,000	(12,000)	-20.7%
Insurance proceeds	--	167,000	350,000	(167,000)	-100.0%
Other	313,000	115,000	99,000	198,000	172.2%
Total	<u>\$ 1,962,000</u>	<u>1,468,000</u>	<u>1,514,000</u>	<u>494,000</u>	<u>33.7%</u>

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 \$150,000 during fiscal year 2012. BVRMC also received \$385,000 in county tax subsidy in fiscal year 2012.

Operating and Financial Performance

The following summarizes BVRMC's statements of revenue, expenses, and changes in net assets between 2012 and 2011:

Overall activity at BVRMC, as measured by patient admissions, decreased by 10% to 1,717 admissions in 2012, from 1,916 admissions in 2011. Patient days decreased 8% from 8,531 in 2011 to 7,817 in 2012. Total outpatient procedures in the Emergency, Surgery, Radiology, and Laboratory departments decreased 4% to 114,184 in 2012 compared to 118,437 in 2011.

	<u>Year Ended June 30</u>			<u>Change</u>	<u>Percent Change</u>
	<u>2012</u>	<u>2011</u>	<u>2010</u>		
Total Admissions:					
Acute	1,098	1,306	1,377	(208)	-16%
Newborn	330	295	325	35	12%
Swing Bed	129	161	147	(32)	-20%
Hope Harbor	160	154	189	6	4%
Total Days Care					
Acute	3,379	4,062	4,033	(683)	-17%
Newborn	708	649	699	59	9%
Swing Bed	543	672	689	(129)	-19%
Hope Harbor	3,187	3,148	3,350	39	1%
Average Daily Census					
Acute	9.25	11.20	11.10	(1.95)	-17%
Newborn	1.93	1.78	1.90	0.15	9%
Swing Bed	1.46	1.85	1.90	(0.39)	-21%
Hope Harbor	8.71	8.60	9.20	0.11	1%
Average Length of Stay					
Acute	3.10	3.10	2.90	--	0%
Newborn	2.10	2.20	2.20	(0.10)	-5%
Swing Bed	4.20	4.20	4.70	--	0%
Hope Harbor	19.90	20.40	17.70	(0.50)	-2%
Emergency Room Visits	7,849	7,825	7,248	24	0%
Total Surgical Procedures	2,973	3,056	3,330	(83)	-3%
Total Radiology Procedures	17,240	17,925	17,783	(685)	-4%
Total Laboratory Procedures	86,122	89,631	87,319	(3,509)	-4%
Home Health Visits	6,255	6,633	7,004	(378)	-6%
Full-time equivalents (FTE's)	347.3	343.18	322.49	4	1%

Total net patient service revenue decreased \$1,524,000, or 4%, in 2012 to \$38,413,000.

Gross patient revenue decreased \$1,535,000, or 2% from prior year primarily due to decreased patient volume. Contractual adjustments as a percent of gross revenue increased from 36.5% in 2011 to 37.1% in 2012.

Buena Vista Regional Medical Center

Management's Discussion and Analysis

Contractual adjustments decreased over prior year as described in the table below:

	Year Ended June 30			Dollar Change	Percent Change
	2012	2011	2010		
Medicare	\$ 11,702,000	13,233,000	11,778,000	(1,531,000)	-11.6%
Medicaid	1,476,000	1,811,000	1,973,000	(335,000)	-18.5%
Wellmark and other commercial	9,490,000	7,983,000	8,056,000	1,507,000	18.9%
Other Adjustments and charity care	816,000	682,000	738,000	134,000	0.0%
Total	\$ 23,484,000	23,709,000	22,545,000	(225,000)	-0.9%

Days in accounts receivable increased from 49 days in fiscal year 2011 to 55 days in fiscal year 2012.

Salary expenses increased \$713,000 or 4% to \$16,829,000 in 2012 from \$16,116,000 in 2011. As a percentage of net patient service revenue, salary expense was 43.8% and 40.3% for the fiscal years ended June 2012 and 2011, respectively. Full-time equivalents increased from 343.18 in 2011 to 347.30 in 2012.

Employee benefit expense increased \$176,000, or 4%. Employee benefit expense represented 25.7% and 25.7% of salary expenses in fiscal years 2012 and 2011 respectively.

Supplies and other expense decreased \$523,000, or 4% from prior year. As a percentage of net patient service revenue, supplies expense remained consistent at 31% in fiscal year 2012, and 31% in fiscal year 2011.

Professional fees and Purchased services increased \$247,000, or 9%, primarily due to contracted ARNP and contracted doctors.

Depreciation increased by \$475,000, or 16% in 2012, primarily due to depreciation associated with our computerized Health Information Systems. Interest expense decreased \$22,000 to \$232,000 in 2012.

Total operating expenses increased by \$1,067,000, or 3%, for the year ended June 30, 2012 for the reasons discussed above.

Capital Assets

During fiscal year 2012, BVRMC invested \$1,895,000 in a broad range of capital assets included in Table 7 below.

	2012	2011	2010	Dollar Change	Percent Change
Land and Land Improvements	\$ 2,355,000	2,330,000	1,870,000	25,000	1%
Buildings and Fixed Equipment	35,041,000	34,579,000	31,402,000	462,000	1%
Major Movable Equipment	16,591,000	15,374,000	13,482,000	1,217,000	8%
Subtotal	53,987,000	52,283,000	46,754,000	1,704,000	3%
Less: Accumulated Depreciation	29,537,000	26,636,000	25,088,000	2,901,000	11%
Net Property, Plant, and Equipment	\$ 24,450,000	25,647,000	21,666,000	(1,197,000)	-5%
Construction in Progress	\$ 177,000	576,000	3,772,000	(399,000)	-69%

Buena Vista Regional Medical Center

Management's Discussion and Analysis

Net property, plant, and equipment decreased as a result of the cost of new additions being less than annual depreciation expense. BVRMC has enhanced existing facilities and upgraded surgery, radiology, plant, ambulance, and computer equipment. The decrease in Construction in Progress is due to an automated medication system, Vocera, and Buena Vista Clinic remodeling projects being put into service.

Long-Term Debt (including Capital Leases)

At June 30, 2012, BVRMC had \$5,177,000 in short-term and long-term debt. This has decreased \$428,000 from fiscal year 2011, 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 8.4% of BVRMC's total assets at June 30, 2012.

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 L. Ketcham, CPA, CHFP
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, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	\$ 5,448,096	4,114,755
Investments	2,984,590	2,969,186
Receivables -		
Patient, net of allowance for doubtful accounts of \$1,849,000 in 2012 and \$1,607,000 in 2011	6,040,216	5,411,576
Other receivables	504,793	92,020
Succeeding year property tax receivable	376,369	366,196
Inventory	1,048,691	1,016,764
Prepaid expenses	375,658	305,408
Investments limited as to use or restricted	383,324	328,268
Estimated third-party payor settlements	408,647	--
Total current assets	<u>17,570,384</u>	<u>14,604,173</u>
Investments limited as to use or restricted:		
Internally designated assets	19,683,887	19,927,231
Bond restricted funds	400,000	400,000
Donor restricted funds	87,522	83,053
	<u>20,171,409</u>	<u>20,410,284</u>
Less amount required to meet current obligations	<u>383,324</u>	<u>328,268</u>
Total investments limited as to use or restricted, net of current portion	<u>19,788,085</u>	<u>20,082,016</u>
Capital assets, net	<u>24,626,626</u>	<u>26,223,189</u>
Deferred financing costs	<u>55,949</u>	<u>59,598</u>
Total assets	<u>\$ 62,041,044</u>	<u>60,968,976</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 444,417	428,320
Accounts payable	819,693	735,617
Accrued salaries and vacation	1,743,502	1,579,388
Accrued health insurance	242,000	242,000
Payroll taxes withheld and other accrued expenses	437,282	209,637
Estimated third-party payor settlements	--	168,361
Deferred revenue for succeeding year property tax receivable	376,369	366,196
Total current liabilities	4,063,263	3,729,519
Long term debt, net of current portion	<u>4,732,564</u>	<u>5,176,981</u>
Total liabilities	<u>8,795,827</u>	<u>8,906,500</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	19,449,645	20,617,888
Restricted - expendable	87,522	83,053
Unrestricted	33,708,050	31,361,535
Total net assets	<u>53,245,217</u>	<u>52,062,476</u>
Total liabilities and net assets	<u>\$ 62,041,044</u>	<u>60,968,976</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 39,897,535	41,208,195
Provision for bad debt	<u>(1,483,997)</u>	<u>(1,271,588)</u>
Net patient service revenue	38,413,538	39,936,607
Other operating revenue	<u>1,961,761</u>	<u>1,468,373</u>
Total operating revenue	<u>40,375,299</u>	<u>41,404,980</u>
OPERATING EXPENSES:		
Salaries	16,829,075	16,115,690
Employee benefits	4,322,313	4,146,388
Purchased services and professional fees	3,146,306	2,899,046
Supplies	8,135,305	8,653,504
Other expenses	3,821,471	3,826,962
Depreciation and amortization	3,478,768	3,003,310
Interest	<u>232,438</u>	<u>254,418</u>
Total operating expenses	<u>39,965,676</u>	<u>38,899,318</u>
OPERATING INCOME	<u>409,623</u>	<u>2,505,662</u>
NONOPERATING REVENUE:		
County tax revenue	384,700	369,955
Investment income	<u>149,876</u>	<u>195,879</u>
Nonoperating revenue	<u>534,576</u>	<u>565,834</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	944,199	3,071,496
CAPITAL GRANTS AND CONTRIBUTIONS	<u>238,542</u>	<u>164,248</u>
INCREASE IN NET ASSETS	1,182,741	3,235,744
NET ASSETS, beginning of year	<u>52,062,476</u>	<u>48,826,732</u>
NET ASSETS, end of year	<u>\$ 53,245,217</u>	<u>52,062,476</u>

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient services and third party payors	\$ 37,207,890	37,786,345
Cash paid for employee salaries and benefits	(20,754,328)	(20,254,246)
Cash paid to suppliers and contractors	(15,170,142)	(15,776,392)
Other receipts and payments, net	<u>1,496,725</u>	<u>1,467,130</u>
Net cash provided by operating activities	<u>2,780,145</u>	<u>3,222,837</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	<u>384,700</u>	<u>369,955</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments on capital lease obligations	(243,320)	(237,479)
Payments on long-term debt	(185,000)	(180,000)
Interest payments	(237,739)	(250,879)
Capital grants and contributions	238,542	164,248
Proceeds from sale of property and equipment	68,587	--
Purchase of property and equipment	<u>(1,845,921)</u>	<u>(4,269,973)</u>
Net cash used in capital and related financing activities	<u>(2,204,851)</u>	<u>(4,774,083)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	149,876	195,879
Deposits to investments, net	(15,404)	(150,457)
Withdrawals from (deposits to) investments limited as to use or restricted, net	<u>238,875</u>	<u>(1,463,962)</u>
Net cash provided by (used in) investing activities	<u>373,347</u>	<u>(1,418,540)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,333,341	(2,599,831)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>4,114,755</u>	<u>6,714,586</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 5,448,096</u>	<u>4,114,755</u>

See notes to financial statements

Buena Vista Regional Medical Center

Statements of Cash Flows (Continued) For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 409,623	2,505,662
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	3,478,768	3,003,310
(Gain) loss on sale of capital assets	(52,263)	47,696
Interest expense included in operating expenses	232,438	254,418
(Increase) decrease in current assets -		
Receivables -		
Patients	(628,640)	(525,293)
Other	(412,773)	(48,939)
Inventories	(31,927)	(9,677)
Prepaid expenses	(70,250)	5,480
Estimated third-party payor settlements	(408,647)	--
Increase (decrease) in current liabilities -		
Accounts payable	35,117	(392,683)
Accrued salaries, vacation, payroll taxes withheld and other	397,060	7,832
Estimated third-party payor settlements	(168,361)	(1,624,969)
Net cash provided by operating activities	<u>\$ 2,780,145</u>	<u>3,222,837</u>

See notes to financial statements

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

(1) 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, 2012 and 2011

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 accounting principles generally accepted in the United States of America (GAAP). 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 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 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, donors, or debt agreements.

G. *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.

H. *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

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

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.

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 County 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 County 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. Inventory

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

K. Investments Limited as to Use or Restricted

Investments 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.

L. Capital Assets, Net

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. Useful 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, 2012 and 2011

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 Costs

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, 2012 and 2011 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, 2012 and 2011, 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 expenses 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, 2012 and 2011

S. *Charity Care*

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. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination. Charges excluded from patient service revenue under the Hospital's charity care policy were \$816,152 and \$682,203, for 2012 and 2011, respectively.

T. *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.

U. *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.

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. *Reclassifications*

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 reporting format.

X. *Subsequent Events*

The Hospital considered events occurring through November 12, 2012 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

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

The Hospital's deposits in banks at June 30, 2012 and 2011 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.

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 maturities of investments as of June 30, 2012 is as follows:

Certificates of deposit	6 months
U.S. Government Agencies	15 years
Corporate bonds	10 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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

The composition of investments and investments limited as to use or restricted as of June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Investments (operating reserves):		
Cash and cash equivalents	\$ 727	924
Certificates of deposit	2,112,229	1,738,549
Corporate bonds	868,000	1,225,000
Interest receivable	3,634	4,713
Total investments	<u>\$ 2,984,590</u>	<u>2,969,186</u>
Investments Limited as to Use or Restricted:		
By Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 7,584,026	7,900,674
Certificates of deposit	12,064,320	11,981,367
U.S. government agencies	14,087	16,323
Interest receivable	21,454	28,867
	19,683,887	19,927,231
By Hospital Revenue Bond Agreement:		
Cash and cash equivalents	400,000	400,000
By Donor:		
Cash and cash equivalents	87,522	83,053
Total investments limited as to use or restricted	20,171,409	20,410,284
Less amounts required to meet current obligations	383,324	328,268
Long-term portion	<u>\$ 19,788,085</u>	<u>20,082,016</u>

Investment return, including return on investments limited as to use or restricted, for the years ended June 30, 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 150,602	184,255
Change in unrealized gains (loss), net	(726)	11,624
Total investment return	<u>\$ 149,876</u>	<u>195,879</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, 2010.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 13,140,310	15,077,183
Outpatient	43,512,745	42,170,257
Swingbed	737,302	902,858
Behavioral health	4,374,715	4,395,709
Hospice	<u>1,616,973</u>	<u>2,370,944</u>
Total gross patient service revenue	<u>63,382,045</u>	<u>64,916,951</u>
Contractual adjustments:		
Medicare	11,702,124	13,233,363
Medicaid	1,476,209	1,810,677
Other	9,490,025	7,982,513
Charity care services	<u>816,152</u>	<u>682,203</u>
Total contractual adjustments	<u>23,484,510</u>	<u>23,708,756</u>
Net patient service revenue before provision for bad debt	<u>\$ 39,897,535</u>	<u>41,208,195</u>

The Hospital reports net patient service 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 46.5% and 8.1%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2012, and 47.7% and 8.2%, respectively, for the year ended June 30, 2011. 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 2012 and 2011 net patient service revenue increased approximately \$171,000 and \$560,000, 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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Patient receivables	\$ 11,220,216	10,214,576
Less estimated third-party contractual adjustments	(3,331,000)	(3,196,000)
Less allowance for doubtful accounts	<u>(1,849,000)</u>	<u>(1,607,000)</u>
	<u>\$ 6,040,216</u>	<u>5,411,576</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>2012</u>	<u>2011</u>
Medicare	37%	32%
Medicaid	9	7
Commercial insurance	38	44
Patients and residents	<u>16</u>	<u>17</u>
	<u>100%</u>	<u>100%</u>

(5) Capital Assets

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

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2012</u>
Capital assets, not being depreciated,				
Land	\$ 605,338	22,360	--	627,698
Construction in progress	576,021	850,047	(1,249,098)	176,970
Total capital assets not being depreciated	<u>1,181,359</u>	<u>872,407</u>	<u>(1,249,098)</u>	<u>804,668</u>
Capital assets, being depreciated:				
Land improvements	1,724,672	--	2,612	1,727,284
Buildings	31,145,728	259,696	172,348	31,577,772
Fixed equipment	3,433,412	--	29,689	3,463,101
Major movable equipment	15,373,606	758,604	458,766	16,590,976
Total capital assets, being depreciated	<u>51,677,418</u>	<u>1,018,300</u>	<u>663,415</u>	<u>53,359,133</u>
Less accumulated depreciation:				
Land improvements	(715,323)	(78,889)	--	(794,212)
Buildings	(14,060,443)	(1,357,578)	--	(15,418,021)
Fixed equipment	(2,342,823)	(183,940)	--	(2,526,763)
Major movable equipment	(9,516,999)	(1,854,712)	573,532	(10,798,179)
Total accumulated depreciation	<u>(26,635,588)</u>	<u>(3,475,119)</u>	<u>573,532</u>	<u>(29,537,175)</u>
Total capital assets, being depreciated, net	<u>25,041,830</u>	<u>(2,456,819)</u>	<u>1,236,947</u>	<u>23,821,958</u>
Total capital assets, net	<u>\$ 26,223,189</u>	<u>(1,584,412)</u>	<u>(12,151)</u>	<u>24,626,626</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

	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>

Total depreciation for the year ended June 30, 2012 and 2011, including depreciation on rental property owned by the Hospital, was \$3,475,119 and \$2,999,661 respectively.

Construction in progress as of June 30, 2012 consisted of costs related to a paging 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 2013.

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2012 and 2011 consisted of the following:

	June 30, 2011	Borrowings	Payments	June 30, 2012	Due Within One Year
Series 2007 hospital revenue bonds (A)	\$ 4,595,000	--	(185,000)	4,410,000	195,000
Capital lease obligation (B)	1,010,301	--	(243,320)	766,981	249,417
	<u>\$ 5,605,301</u>	<u>--</u>	<u>(428,320)</u>	<u>5,176,981</u>	<u>444,417</u>
	June 30, 2010	Borrowings	Payments	June 30, 2011	Due Within One Year
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>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

- (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 \$195,000 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 Debt Principal</u>	<u>Capital Lease Principal</u>	<u>Interest</u>
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	230,000	--	170,560
2018 – 2022	1,025,000	--	683,118
2023 – 2027	1,585,000	--	375,729
2028	745,000	--	18,625
	<u>\$ 4,410,000</u>	<u>766,981</u>	<u>2,056,125</u>

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

	<u>2012</u>	<u>2011</u>
Cost	\$ 1,650,723	1,650,723
Less: Accumulated amortization	<u>(1,568,896)</u>	<u>(1,455,985)</u>
Net book value	<u>\$ 81,827</u>	<u>194,738</u>

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

(7) Other Operating Revenue

Other operating revenue for the years ended June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Cafeteria	\$ 400,870	349,493
Rental income	311,791	321,276
Electronic health record incentive payment	266,783	--
School nurse	226,200	207,431
Fitness center	185,352	154,205
340B revenue	106,988	--
Grants	103,480	94,677
Lifeline	71,743	69,177
Gain (loss) on sale of capital assets	52,263	(47,696)
Other	236,291	152,403
	<u>\$ 1,961,761</u>	<u>1,468,373</u>

(8) 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 5.38% and 4.50% of their annual covered salary and the Hospital is required to contribute 8.07% and 6.95% of annual covered salary for 2012 and 2011, respectively. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$1,330,949, \$1,118,087, and \$963,940 respectively.

(9) 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 management 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Fees to affiliate for personnel and services	\$ 379,211	510,589

(10) 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, 2012.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

(11) 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.

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.

(12) 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, 2012 and 2011 follows:

	<u>(Unaudited)</u>	
	<u>2012</u>	<u>2011</u>
Assets	\$ <u>3,335,538</u>	<u>3,317,869</u>
Net assets	\$ <u>3,233,604</u>	<u>3,301,086</u>

The Hospital received \$250,422 and \$165,348 from the Foundation during the year ended June 30, 2012 and 2011, respectively, for the purchase of property and equipment. As of June 30, 2012, the Foundation has no pledges receivable related to Hospital projects.

(13) 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, 2012 and 2011, the Hospital has accumulated funds in excess of actual claims paid of \$592,000 and \$501,900, 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, 2012 and 2011 was \$242,000.

(14) 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.

Buena Vista Regional Medical Center

Notes to Financial Statements June 30, 2012 and 2011

(15) 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.

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, 2012

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 384,700	--	384,700	366,196	18,504
Estimated other revenues / receipts	40,763,717	(1,602,097)	39,161,620	43,664,804	(4,503,184)
Expenses / disbursements	<u>39,965,676</u>	<u>(1,529,226)</u>	<u>38,436,450</u>	<u>45,041,510</u>	<u>6,605,060</u>
Net	1,182,741	(72,871)	1,109,870	(1,010,510)	<u>\$ 2,120,380</u>
Balance, beginning of year	<u>52,062,476</u>	<u>(24,568,251)</u>	<u>27,494,225</u>	<u>27,494,225</u>	
Balance, end of year	<u>\$ 53,245,217</u>	<u>(24,641,122)</u>	<u>28,604,095</u>	<u>26,483,715</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, 2012, the Hospital's expenditures did not exceed the amount budgeted.

Schedules of Patient Service Revenue
For the Years Ended June 30, 2012 and 2011

	2012						2011					
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total
DAILY PATIENT SERVICES:												
Behavioral health	--	149,625	--	3,281,580	--	3,431,205	--	33,930	--	3,148,000	--	3,181,930
Medical and surgical	\$ 1,485,435	498,976	--	--	41,385	2,025,796	1,885,075	229,110	--	--	40,540	2,154,725
Obstetric	1,419,123	--	--	--	--	1,419,123	1,185,825	--	--	--	--	1,185,825
Hospice	--	--	--	--	1,065,028	1,065,028	--	--	--	--	1,879,678	1,879,678
Coronary care	363,278	--	--	--	--	363,278	468,311	--	--	--	--	468,311
Swing bed	--	--	166,942	--	--	166,942	--	--	216,203	--	--	216,203
	<u>3,267,836</u>	<u>648,601</u>	<u>166,942</u>	<u>3,281,580</u>	<u>1,106,413</u>	<u>8,471,372</u>	<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>
OTHER NURSING SERVICES:												
Operating and recovery room	2,240,945	6,729,447	2,542	--	--	8,972,934	2,864,229	6,136,884	2,468	--	--	9,003,581
Medical and surgical supplies	2,530,953	1,198,323	8,997	936	2,556	3,741,765	2,736,941	928,798	5,986	55	5,637	3,677,417
Emergency services	69	2,466,237	--	--	--	2,466,306	113	2,658,713	--	--	--	2,658,826
Outpatient service	72,243	2,074,315	6,024	5,528	324	2,158,434	73,773	1,755,426	9,599	5,942	840	1,845,580
Homecare	--	408,606	--	--	--	408,606	--	429,833	--	--	--	429,833
Delivery and labor room	--	263,446	--	--	--	263,446	--	218,807	--	--	--	218,807
Cardiac rehabilitation	--	128,374	--	--	--	128,374	--	178,534	--	--	--	178,534
Private duty nursing	--	41,651	--	--	--	41,651	--	45,200	--	--	--	45,200
Maternal child care	--	6,417	--	--	--	6,417	--	5,876	--	--	--	5,876
	<u>4,844,210</u>	<u>13,316,816</u>	<u>17,563</u>	<u>6,464</u>	<u>2,880</u>	<u>18,187,933</u>	<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>
OTHER PROFESSIONAL SERVICES:												
Pharmacy	1,708,049	10,376,431	247,575	728,124	464,381	13,524,560	2,159,232	10,952,289	253,243	889,006	405,919	14,659,689
Laboratory	671,251	2,823,059	35,668	221,350	7,710	3,759,038	793,972	2,736,078	53,678	219,828	7,001	3,810,557
Radiology	86,244	3,608,922	4,443	10,501	435	3,710,545	113,915	3,529,948	5,049	10,756	418	3,660,086
Respiratory therapy	1,445,758	532,312	148,252	96,319	16,156	2,238,797	1,431,289	336,372	188,185	77,191	22,433	2,055,470
CT scans	215,504	1,830,075	8,130	2,448	--	2,056,157	288,750	1,923,409	7,597	--	--	2,219,756
Nuclear medicine	66,110	1,811,983	687	--	1,300	1,880,080	100,051	1,838,470	4,574	--	--	1,943,095
Physical therapy	156,896	1,329,520	60,922	13,910	5,841	1,567,089	181,794	1,194,759	86,120	26,633	1,665	1,490,971
ER physicians	--	1,566,811	--	--	--	1,566,811	--	1,702,312	--	--	--	1,702,312
Ultrasound	119,469	1,045,367	2,613	585	--	1,168,034	151,051	977,109	4,671	--	--	1,132,831
Ambulance	108,371	1,024,653	4,428	1,466	2,496	1,141,414	121,196	995,883	3,748	2,627	4,175	1,127,629
Oncology	702	1,037,896	--	--	4,149	1,042,747	578	989,563	--	--	766	990,907
Anesthesiology	138,584	693,039	100	--	--	831,723	207,221	661,065	--	--	--	868,286
Occupational therapy	68,277	518,135	32,778	1,437	132	620,759	75,939	465,855	49,184	3,670	895	595,543
Electroencephalography	1,672	596,085	--	--	--	597,757	1,624	535,242	--	406	--	537,272
Electrocardiology	72,788	469,023	1,491	5,572	--	548,874	75,936	441,070	1,900	6,546	125	525,577
Blood administration	161,549	183,517	4,332	744	4,531	354,673	149,887	179,467	6,713	723	852	337,642
Speech therapy	7,040	49,527	1,378	4,215	549	62,709	10,481	32,408	3,940	4,326	--	51,155
Diabetic education	--	39,019	--	--	--	39,019	--	41,802	--	--	--	41,802
Dietary	--	11,581	--	--	--	11,581	--	15,736	--	--	--	15,736
Infection control	--	373	--	--	--	373	--	296	--	--	--	296
Cardiopulmonary	--	--	--	--	--	--	--	13	--	--	--	13
	<u>5,028,264</u>	<u>29,547,328</u>	<u>552,797</u>	<u>1,086,671</u>	<u>507,680</u>	<u>36,722,740</u>	<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>
Gross patient service revenue	\$ <u>13,140,310</u>	<u>43,512,745</u>	<u>737,302</u>	<u>4,374,715</u>	<u>1,616,973</u>	<u>63,382,045</u>	<u>15,077,183</u>	<u>42,170,257</u>	<u>902,858</u>	<u>4,395,709</u>	<u>2,370,944</u>	<u>64,916,951</u>
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE												
Contractual allowances and other deductions, primarily Medicare and Medicaid						(22,668,358)						(23,026,553)
Charity care services and other discounts, based on charges forgone						(816,152)						(682,203)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT						<u>39,897,535</u>						<u>41,208,195</u>
Provision for bad debt						(1,483,997)						(1,271,588)
NET PATIENT SERVICE REVENUE						<u>\$ 38,413,538</u>						<u>39,936,607</u>

Other Operating Revenue
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cafeteria	\$ 400,870	349,493
Rental income	311,791	321,276
Electronic health record incentive payment	266,783	--
School nurse	226,200	207,431
Fitness center	185,352	154,205
Miscellaneous	156,287	57,673
340B revenue	106,988	--
Grants	103,480	94,677
Lifeline	71,743	69,177
Gain (loss) on sale of capital assets	52,263	(47,696)
Purchasing rebates	46,250	58,438
Coffee shop	23,207	30,679
Contracted revenue	8,777	4,590
Vending machines	1,770	1,023
Insurance proceeds	--	167,407
	<u>\$ 1,961,761</u>	<u>1,468,373</u>

Departmental Expenses
For the Years Ended June 30, 2012 and 2011

	2012				2011			
	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:								
Medical and surgical	\$ 1,641,073	100,008	527,618	2,268,699	1,611,378	--	535,256	2,146,634
Operating and recovery room	662,699	200,250	1,205,791	2,068,740	619,584	2,400	1,190,547	1,812,531
Emergency services	1,098,609	--	428,316	1,526,925	1,122,776	600	408,632	1,532,008
Behavioral health	1,007,420	131,295	342,486	1,481,201	940,596	117,191	311,598	1,369,385
Medical and surgical supplies	63,074	--	1,399,267	1,462,341	75,192	--	1,509,604	1,584,796
Obstetric	929,699	562	394,646	1,324,907	850,041	625	365,052	1,215,718
Outpatient services	748,905	--	491,645	1,240,550	682,173	--	483,412	1,165,585
Hospice	369,762	26,466	254,651	650,879	389,038	27,717	427,627	844,382
Coronary care	482,837	--	147,724	630,561	482,388	--	147,135	629,523
Homecare	395,567	23,100	183,251	601,918	441,082	--	186,926	628,008
School	182,022	--	48,913	230,935	168,393	--	45,469	213,862
Cardiac rehabilitation	163,780	--	51,498	215,278	152,308	--	52,193	204,501
Nursing administration	135,258	--	37,627	172,885	134,247	--	38,730	172,977
Lifeline	2,270	--	64,969	67,239	2,288	--	61,336	63,624
Private duty nurses	32,875	--	19,054	51,929	29,657	--	17,284	46,941
	<u>7,915,850</u>	<u>481,681</u>	<u>5,597,456</u>	<u>13,994,987</u>	<u>7,701,141</u>	<u>148,533</u>	<u>5,780,801</u>	<u>13,630,475</u>
OTHER PROFESSIONAL SERVICES:								
Pharmacy	449,174	--	3,118,114	3,567,288	444,178	--	3,507,274	3,951,452
Radiology	788,726	865,493	608,516	2,262,735	739,587	775,504	607,525	2,122,616
Laboratory	664,304	255,722	602,303	1,522,329	659,986	231,557	621,783	1,513,326
ER physicians	--	1,064,926	23,816	1,088,742	--	1,239,754	38,131	1,277,885
Physical therapy	673,602	808	237,286	911,696	608,108	6,369	222,622	837,099
Medical records	404,669	--	280,591	685,260	335,500	--	240,644	576,144
Oncology	376,094	--	151,966	528,060	340,223	--	131,967	472,190
Respiratory therapy	253,498	--	182,208	435,706	283,665	--	207,025	490,690
Occupational therapy	277,814	273	97,266	375,353	237,305	1,195	78,485	316,985
Fitness center	215,878	--	97,336	313,214	183,986	--	100,442	284,428
Ambulance	133,430	565	123,044	257,039	145,666	--	135,058	280,724
Nuclear medicine	--	9,325	237,290	246,615	--	8,973	189,982	198,955
Infection control	149,224	--	76,731	225,955	138,228	--	52,830	191,058
Blood administration	--	--	198,476	198,476	--	--	203,839	203,839
Electroencephalography	99,479	--	73,911	173,390	71,541	--	72,625	144,166
Women's center	123,285	--	48,260	171,545	106,981	--	41,421	148,402
Electrocardiology	67,127	24,605	42,084	133,816	53,432	12,452	41,027	106,911
Diabetic education	83,292	--	30,056	113,348	80,776	--	30,439	111,215
CT scans	--	--	105,204	105,204	--	--	99,584	99,584
Specialty clinics	54,613	--	34,704	89,317	50,827	--	37,018	87,845
Anesthesiology	--	34,465	45,576	80,041	--	--	71,302	71,302
Speech therapy	645	44,791	212	45,648	552	25,933	171	26,656
Ultrasound	--	1,680	36,045	37,725	--	4,020	30,891	34,911
	<u>4,814,854</u>	<u>2,302,653</u>	<u>6,450,995</u>	<u>13,568,502</u>	<u>4,480,541</u>	<u>2,305,757</u>	<u>6,762,085</u>	<u>13,548,383</u>
GENERAL SERVICES:								
Plant	403,700	--	913,961	1,317,661	299,948	--	872,548	1,172,496
Dietary	567,217	--	634,517	1,201,734	506,004	--	597,051	1,103,055
Housekeeping	459,246	--	188,372	647,618	491,957	--	189,559	681,516
Laundry and linen	--	--	119,100	119,100	126	--	118,075	118,201
	<u>1,430,163</u>	<u>--</u>	<u>1,855,950</u>	<u>3,286,113</u>	<u>1,298,035</u>	<u>--</u>	<u>1,777,233</u>	<u>3,075,268</u>
ADMINISTRATIVE SERVICES:	<u>2,668,208</u>	<u>361,972</u>	<u>2,179,121</u>	<u>5,209,301</u>	<u>2,635,973</u>	<u>444,756</u>	<u>2,112,309</u>	<u>5,193,038</u>
NONDEPARTMENTAL:								
Depreciation and amortization	--	--	3,478,768	3,478,768	--	--	3,003,310	3,003,310
Interest	--	--	232,438	232,438	--	--	254,418	254,418
Insurance	--	--	195,567	195,567	--	--	194,426	194,426
	<u>--</u>	<u>--</u>	<u>3,906,773</u>	<u>3,906,773</u>	<u>--</u>	<u>--</u>	<u>3,452,154</u>	<u>3,452,154</u>
TOTAL EXPENSES	<u>\$ 16,829,075</u>	<u>3,146,306</u>	<u>19,990,295</u>	<u>39,965,676</u>	<u>16,115,690</u>	<u>2,899,046</u>	<u>19,884,582</u>	<u>38,899,318</u>

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2012 and 2011**

Days Since Discharge	2012		2011	
	Amount	Percent of Total	Amount	Percent of Total
0 - 60	\$ 7,925,369	70.64 %	7,485,145	73.28 %
61 - 120	1,729,515	15.41	1,518,642	14.87
121 - 180	688,851	6.14	578,606	5.66
181 - and over	876,481	7.81	632,183	6.19
	<u>11,220,216</u>	100.00 %	<u>10,214,576</u>	100.00 %
Less:				
Allowance for doubtful accounts	(1,849,000)		(1,607,000)	
Allowance for contractual adjustments	<u>(3,331,000)</u>		<u>(3,196,000)</u>	
	<u>\$ 6,040,216</u>		<u>5,411,576</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ 1,607,000		1,791,000	
Provision of uncollectible accounts	1,483,997		1,271,588	
Recoveries of accounts previously written off	532,167		535,216	
Accounts written off	<u>(1,774,164)</u>		<u>(1,990,804)</u>	
Balance, end of year	<u>\$ 1,849,000</u>		<u>1,607,000</u>	

Inventory / Prepaid Expenses
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
INVENTORY:		
Pharmacy	\$ 427,511	378,967
Surgery	392,009	351,915
Central service	<u>229,171</u>	<u>285,882</u>
	<u>\$ 1,048,691</u>	<u>1,016,764</u>
PREPAID EXPENSES:		
Service contracts	\$ 205,196	141,247
Dues	83,114	92,026
Insurance	46,805	31,058
Other	<u>40,543</u>	<u>41,077</u>
	<u>\$ 375,658</u>	<u>305,408</u>

**Financial Statistical Highlights
 For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Patient days:		
Hospital -		
Adult and pediatric	3,379	4,062
Newborn	708	649
Swing bed - skilled	543	672
Hope Harbor	<u>3,187</u>	<u>3,148</u>
	<u>7,817</u>	<u>8,531</u>
Discharges:		
Hospital adult and pediatric	<u>1,099</u>	<u>1,303</u>
Average length of stay:		
Hospital adult and pediatric	3.07	3.12
Observation visits	572	472
Surgical procedures	2,973	3,056
Emergency room visits	7,849	7,825
Full-time equivalents personnel	347	343

**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, 2012, and have issued our report thereon dated November 12, 2012. 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

Management of the Hospital is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item II-A-12 to be a material weakness.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012, 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.

We noted certain matters that we reported to management of the Hospital in a separate letter dated November 12, 2012.

This Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and responses. 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 12, 2012.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2012

Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the financial statements.
- b. A material weakness 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

Internal Control Deficiencies

II-A-12

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 the estimated amounts due to/from third party payors.

Cause: The process used by management to estimate third-party payor settlements and allowances for contractual adjustments in accounts receivable was not as extensive or detailed enough to properly compute the estimates.

Recommendation: Tremendous detail is needed to accurately estimate accounts receivable allowances and third-party settlements. The Hospital should review and revise its estimation process of the stated accounts to ensure that financial statements are properly stated.

Views of Responsible Officials and Planned

Corrective Action: The Hospital concurs with the recommendation and will review and improve its estimation processes and procedures.

Instances of Non-Compliance

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-12

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, 2012.

III-B-12

Certified Budget: Hospital disbursements during the year ended June 30, 2012, did not exceed budgeted amounts.

Buena Vista Regional Medical Center

Schedule of Findings and Questioned Costs June 30, 2012

III-C-12

Questionable Expenditures: During the audit, we noted certain expenditures 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 vendors	Employee recognition banquet	\$19,734

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-12

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

III-E-12

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-12

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

III-G-12

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

III-H-12

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Buena Vista Regional Medical Center

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2012**

Finding	Status	Corrective Action Plan or Other Explanation
II-A-11	Allowance estimation and review process	Unresolved, similar finding reported at II-A-12

Buena Vista Regional Medical Center

Audit Staff

For the Year Ended June 30, 2012

This audit was performed by:

- Brian D. Green, FHFMA, CPA, Partner
- Darren R. Osten, CPA, Manager
- Becky S. Frazee, CPA, In-charge Auditor
- Morgan L. Meyer, Staff Auditor

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

In planning and performing our audit of the financial statements of Buena Vista Regional Medical Center (Medical Center) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) 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 Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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. We consider the following control deficiency to be a material weakness:

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimations and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements.

As part of the audit, we reviewed the following significant estimates made by management:

- The allowance for third-party payor contractual adjustments/settlements
- Allowance for doubtful accounts
- Health insurance claims incurred but not yet reported
- Depreciation

We did note that the tools used by management to develop certain estimates were not as extensive and detailed as seen in other similar size facilities and resulted in an audit journal entry. After adjustment, we believe that management's accounting estimates have been computed and recorded on a conservative basis. We recommend that management review their estimation process in these areas and determine if procedures can be added to enhance the estimation process.

The following are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Hospital's policies and procedures:

Expense Reimbursement Policies

The Medical Center's current travel policy and education policy do not require that itemized receipts be provided for expense reimbursement. The policies call for approved expense reports to be submitted with supporting receipts but do not indicate that receipts should provide itemized detail of items purchased. Requiring itemized receipts would reduce the likelihood of reimbursements being made for non-allowable purchases, such as alcoholic drinks or excessive restaurant tips. We recommend management review the current expense reimbursement policies and determine if modifications should be made.

Accounting for Leases

The International Accounting Standards Board (IASB), the body responsible for setting International Financial Reporting Standards (IFRS), and the Financial Accounting Standards Board (FASB), the body responsible for setting generally accepted accounting principles, issued a Proposed Accounting Standards Update on August 17, 2011 to Topic 840, *Leases* in response to concerns raised by users of financial statements regarding the treatment of leases. Existing lease accounting treatment has been criticized for its complexity on the basis that it has proved difficult to define the dividing line between capital and operating leases, as the current standards require the application of subjective judgments.

This proposal would apply a right-of-use model in accounting for all leases with a few exceptions. For leases within the scope of the standard, the following guidance would apply to lessees:

- A lessee would recognize an asset representing its right to use the leased asset for the lease term and a liability to make lease payments
- A lessor would recognize an asset representing its right to receive lease payments and, depending on its exposure to risks and benefits, would either:
 - Recognize a liability while continuing to recognize the underlying asset; or
 - Derecognize the asset and continue to recognize a residual asset representing rights to the asset at the end of the lease term

The lease term would be determined assuming the longest possible lease term that is more likely than not to occur. The measurement basis would use an expected outcome technique to reflect lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees. Those measurement bases would be updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period. Leases with terms of 12 months or less would be subject to simplified requirements.

Recently, there have been indications that the IASB and the FASB have acknowledged that not all leases are equal and therefore it may be appropriate to have two separate methods of accounting. An updated proposal has not yet been released. However, they have agreed to consider an approach in which "finance leases" would be treated similarly to a capital lease and "other-than-finance" leases would appear on the balance sheet but would flow through the income statement similar to operating leases. Further discussion is expected to occur regarding indicators to distinguish between the two types and how the transactions should be recorded.

The original proposal does not include a proposed effective date as the update would be issued in light of other joint projects between the IASB and the FASB. Although these provisions will most likely not be adopted in the near future, it would be prudent for businesses to plan ahead on the basis that the current accounting rules are expected to change, especially when they are negotiating long-term leases or loan facilities with financial covenants that could be impacted by these changes.

Revenue Cycle Disclosures

On December 17, 2011, the Financial Accounting Standards Board (FASB) issued a Proposed Accounting Standards Update to Topic 954, *Health Care Entities*. The proposed update, *Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts (a consensus of the FASB Emerging Issues Task Force)*, would increase required disclosures. Enhanced disclosures would include information about how the entity considers collectibility in determining the amount and timing of revenue and bad debt expense, disclosures of net revenue, and a reconciliation of the activity in the allowance for doubtful accounts. All disclosures will be disaggregated by major payor sources. Although the proposal did not state a proposed effective date, we recommend that management evaluate their ability to track the required information for each payor class.

Conditional Asset Retirement Obligations

FASB ASC Topic 410, "Asset Retirement and Environmental Obligations", clarifies that there is a legal obligation to report an asset retirement activity in which the timing or method of settlement, or both, are conditional on a future event that may or may not be within the control of the entity. An entity must recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. We recommend management review this pronouncement and FASB ASC Topic 360 "Property, Plant, and Equipment" during the potential closing of facilities and the resulting sale or disposal of assets to ensure proper accounting of any asset retirement obligations.

Healthcare Reform

On March 23, 2011, President Obama signed into law the Patient Protection and Affordable Care Act, and on March 30, 2011 he signed the Healthcare and Education Reconciliation Act of 2011. Many are suggesting this legislative change is the greatest to impact healthcare in our country since the enactment of Medicare. Key legislative provisions include the following:

- Insurance coverage provided to uninsured or underinsured 32 million Americans by 2019.
- Medicare cost cutting provisions by reducing market basket update adjustments and Medicare and Medicaid DSH payments.
- Delivery system reforms including implementation of value-based purchasing, reduced payments for high volumes of hospital acquired conditions and readmissions, and pilot programs to test bundled payments and medical homes concepts.
- Expansion of Medicaid.
- Mandates will be given to individuals that will require or penalize those without insurance.
- Mandates will be given to businesses to provide health insurance coverage or be penalized.

Implementation of these reform packages will occur over the next decade. We encourage management and the Board of Trustees to continue to gather more information about the reform legislation and prepare analysis regarding payment changes to best plan for the future needs of your community.

The recommendations outlined above are for management's use only and are not intended to be part of a formal report, which would customarily be delivered to outside lenders, third-party payors, etc. We would be pleased to answer any questions you may have regarding the comments and suggestions contained in the preceding paragraphs.

SEIM JOHNSON, LLP

Omaha, Nebraska,
November 12, 2012.