

**Buena Vista Regional Medical Center**  
Storm Lake, Iowa

**Basic Financial Statements  
and Supplementary Information  
June 30, 2013 and 2012**

**Together with Independent Auditor's Report**

# Buena Vista Regional Medical Center

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## Buena Vista Regional Medical Center

### Officials

June 30, 2013

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<b>Board of Trustees</b>	<b>Address</b>	<b>Term Expires</b>
Rick Lampe, Chairman	Storm Lake, IA	2016
Edean Murray, Treasurer	Storm Lake, IA	2014
Randy Bobolz, Secretary	Albert City, IA	2018
Glen Huntington	Storm Lake, IA	2018
Dan Bacon	Storm Lake, IA	2014
Brenda Halverson	Linn Grove, IA	2018
Paul Monson	Newell, IA	2016

<b>Medical Center Officials</b>	<b>Address</b>	<b>Term Expires</b>
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:

### Report on the Financial Statements

We have audited the accompanying basic financial statements of Buena Vista Regional Medical Center (Medical Center), which comprise the statements of net position as of and for the years ended June 30, 2013 and 2012, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center, as of and for the years ended June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the budgetary comparison information on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information in Exhibits 1 - 6 are presented for the purposes of additional analysis and are not a required part of the 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. Such 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 basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Exhibits 1 - 6 is fairly stated in all material respects in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

*SEIM JOHNSON, LLP*

Omaha, Nebraska,  
September 24, 2013.

# Buena Vista Regional Medical Center

## Management's Discussion and Analysis

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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, 2013. Please read it in conjunction with the financial statements in this report, which follow.

### Financial Highlights

- BVRMC's total assets increased by approximately \$802,000 or 1%, primarily due to the financial results for the year ended June 30, 2013.
- During the year, BVRMC's total operating revenues increased approximately \$914,000 to \$41,289,000, or 2%, from the prior year while expenses increased \$818,000, or 2%, to \$40,784,000. BVRMC had income from operations of \$505,000 which is 1% of total operating revenue.
- BVRMC received \$390,000 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 in the amount of approximately \$847,000. The following is a list of significant items:

<u>Department</u>	<u>2013 Cost</u>
Information Services	\$ 165,000
Diagnostic Imaging	\$ 146,000
Surgery	\$ 135,000
Plant	\$ 71,000
Obstetrics	\$ 64,000
Pharmacy	\$ 58,000

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 Statements of Net Position 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 Position. 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 Statements of Net Position and the Statements of Revenue, Expenses, and Changes in Net Position report information about BVRMC's activities. These two statements report the net position of BVRMC and changes in them. Increases or decreases in BVRMC's net position 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 Position

A summary of BVRMC's statements of net position are presented in Table 1 below:

**Table 1: Condensed Statements of Net Position**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total current assets	\$ 20,271,000	17,570,000	14,604,000	2,701,000	15%
Net capital assets	21,783,000	24,627,000	26,223,000	(2,844,000)	-12%
Other assets, including funded depreciation	<u>20,789,000</u>	<u>19,844,000</u>	<u>20,142,000</u>	<u>945,000</u>	5%
Total assets	<u>\$ 62,843,000</u>	<u>62,041,000</u>	<u>60,969,000</u>	<u>802,000</u>	1%
Current liabilities	\$ 4,280,000	4,063,000	3,730,000	217,000	5%
Long-term debt	<u>4,277,000</u>	<u>4,733,000</u>	<u>5,177,000</u>	<u>(456,000)</u>	-10%
Total liabilities	8,557,000	8,796,000	8,907,000	(239,000)	-3%
Net position	<u>54,286,000</u>	<u>53,245,000</u>	<u>52,062,000</u>	<u>1,041,000</u>	2%
Total liabilities and net position	<u>\$ 62,843,000</u>	<u>62,041,000</u>	<u>60,969,000</u>	<u>802,000</u>	1%

As can be seen in Table 1, total assets increased by \$802,000 to \$62,843,000 in fiscal year 2013, up from \$62,041,000 in fiscal year 2012. The most significant increase was in total current assets, which reflects an increase in cash and receivables. The change in total net position results primarily from operating results in the current year.

### Summary of Revenue, Expenses, and Changes in Net Position

The following table presents a summary of BVRMC's historical revenues and expenses for each of the fiscal years ended June 30, 2013, 2012 and 2011:

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:					
Net patient service revenue	\$ 37,772,000	38,413,000	39,937,000	(641,000)	-2%
Other	<u>3,517,000</u>	<u>1,962,000</u>	<u>1,468,000</u>	<u>1,555,000</u>	79%
Net operating revenue	<u>41,289,000</u>	<u>40,375,000</u>	<u>41,405,000</u>	<u>914,000</u>	2%
Expenses:					
Salaries and employee benefits	21,324,000	21,152,000	20,262,000	172,000	1%
Professional fees	3,097,000	3,146,000	2,899,000	(49,000)	-2%
Supplies and other expenses	12,537,000	11,957,000	12,480,000	580,000	5%
Depreciation, amortization and interest	<u>3,826,000</u>	<u>3,711,000</u>	<u>3,258,000</u>	<u>115,000</u>	3%
Total operating expenses	<u>40,784,000</u>	<u>39,966,000</u>	<u>38,899,000</u>	<u>818,000</u>	2%
Operating income	505,000	409,000	2,506,000	96,000	23%
Non-operating Income	<u>491,000</u>	<u>535,000</u>	<u>565,000</u>	<u>(44,000)</u>	-8%
Excess of revenue and expenses before capital grants and contributions	996,000	944,000	3,071,000	52,000	6%
Capital grants and contributions	45,000	239,000	164,000	(194,000)	100%
Net position – beginning of year	<u>53,245,000</u>	<u>52,062,000</u>	<u>48,827,000</u>	<u>1,183,000</u>	2%
Net position – end of year	<u>\$ 54,286,000</u>	<u>53,245,000</u>	<u>52,062,000</u>	<u>1,041,000</u>	2%

# Buena Vista Regional Medical Center

## Management's Discussion and Analysis

### Sources of Revenue

#### Operating Revenue

During fiscal year 2013, BVRMC derived the majority, or 91%, 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, 2013, 2012, and 2011:

**Table 3: Payor Mix by Percentage**

	Year Ended June 30,		
	2013	2012	2011
Medicare	45.04	46.46	47.71
Medicaid	9.00	8.14	8.23
Wellmark	30.76	30.02	28.33
Other Commercial	10.90	12.06	12.34
Self-pay and other	4.30	3.32	3.39
Total patient revenue	<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.

**Table 4: Other Revenue**

	Year Ended June 30,			Dollar Change	Percent Change
	2013	2012	2011		
340B	\$ 1,527,000	107,000	--	1,420,000	1327.1%
Electronic health record incentive	351,000	267,000	--	84,000	31.5%
Cafeteria/vending	418,000	403,000	351,000	15,000	100.0%
Rental income	367,000	312,000	321,000	55,000	17.6%
Contracted services	255,000	226,000	207,000	29,000	12.8%
Fitness center	223,000	185,000	154,000	38,000	100.0%
Grants	115,000	103,000	95,000	12,000	11.7%
Rebates	32,000	46,000	58,000	(14,000)	-30.4%
Insurance proceeds	--	--	167,000	--	0.0%
Other	229,000	313,000	115,000	(84,000)	-26.8%
Total	<u>\$ 3,517,000</u>	<u>1,962,000</u>	<u>1,468,000</u>	<u>1,555,000</u>	<u>79.3%</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 statements of net position 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 \$100,000 during fiscal year 2013. BVRMC also received \$390,392 in county tax subsidy in fiscal year 2013.

### Operating and Financial Performance

The following summarizes BVRMC's statements of revenue, expenses, and changes in net position between 2013 and 2012:

Overall activity at BVRMC, as measured by patient admissions, decreased by 2% to 1,682 admissions in 2013, from 1,717 admissions in 2012. Patient days decreased 2% from 7,817 in 2012 to 7,678 in 2013. Total outpatient procedures in the Emergency, Surgery, Radiology, and Laboratory departments decreased 2% to 112,128 in 2013 compared to 114,184 in 2012.

**Table 5: Patient and Hospital Statistical Data**

	Year Ended June 30			Change	Percent Change
	2013	2012	2011		
Total Admissions:					
Acute	1,020	1,098	1,377	(78)	-7%
Newborn	365	330	325	35	11%
Swing Bed	128	129	147	(1)	-1%
Hope Harbor	169	160	189	9	6%
Total Days Care					
Acute	3,002	3,379	4,033	(377)	-11%
Newborn	767	708	699	59	8%
Swing Bed	566	543	689	23	4%
Hope Harbor	3,343	3,187	3,350	156	5%
Average Daily Census					
Acute	7.40	9.25	11.10	(1.85)	-20%
Newborn	2.11	1.93	1.90	0.18	9%
Swing Bed	1.55	1.46	1.90	0.09	6%
Hope Harbor	9.14	8.71	9.20	0.43	5%
Average Length of Stay					
Acute	2.92	3.07	2.90	(0.15)	-5%
Newborn	2.10	2.10	2.20	--	0%
Swing Bed	4.42	4.20	4.70	0.22	5%
Hope Harbor	19.78	19.90	17.70	(0.12)	-1%
Emergency Room Visits	7,852	7,849	7,248	3	0%
Total Surgical Procedures	2,847	2,973	3,330	(126)	-4%
Total Radiology Procedures	17,243	17,240	17,783	3	0%
Total Laboratory Procedures	84,186	86,122	87,319	(1,936)	-2%
Home Health Visits	0	6,255	7,004	(6,255)	-100%
Full-time equivalents (FTE's)	334.5	347.3	322.49	(13)	-4%

## Buena Vista Regional Medical Center

### Management's Discussion and Analysis

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Total net patient service revenue decreased \$641,000, or 2%, in 2013 to \$37,772,000.

Gross patient revenue decreased \$1,877,000, or 3% from prior year primarily due to decreased patient volume. Contractual adjustments as a percent of gross revenue decreased from 37.1% in 2012 to 36.6% in 2013.

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

	Year Ended June 30			Dollar Change	Percent Change
	2013	2012	2011		
Medicare	\$ 10,459,000	11,702,000	13,233,000	(1,243,000)	-10.6%
Medicaid	1,531,000	1,476,000	1,811,000	55,000	3.7%
Wellmark and other commercial	9,479,000	9,490,000	7,983,000	(11,000)	-0.1%
Other Adjustments and charity care	1,038,000	816,000	682,000	222,000	0.0%
Total	\$ 22,507,000	23,484,000	23,709,000	(977,000)	-4.2%

Days in accounts receivable decreased from 55 days in fiscal year 2012 to 49 days in fiscal year 2013.

Salary expenses decreased \$128,000 or 1% to \$16,701,000 in 2013 from \$16,829,000 in 2012. As a percentage of net patient service revenue, salary expense was 44.2% and 43.8% for the fiscal years ended June 2013 and 2012, respectively. Full-time equivalents decreased from 347.30 in 2012 to 334.52 in 2013.

Employee benefit expense increased \$301,000, or 7%. Employee benefit expense represented 27.7% and 25.7% of salary expenses in fiscal years 2013 and 2012 respectively.

Supplies and other expense increased \$580,000, or 5% from prior year. As a percentage of net patient service revenue, supplies expense increased to 33% in fiscal year 2013, and 31% in fiscal year 2012.

Professional fees and Purchased services decreased \$49,000, or 2%, primarily due to contracted ARNP and contracted doctors.

Depreciation increased by \$115,000, or 3% in 2013, primarily due to depreciation associated with our computerized Health Information Systems. Interest expense decreased from \$232,000 to 223,000 in 2013.

Total operating expenses increased by \$818,000, or 2%, for the year ended June 30, 2013 for the reasons discussed above.

# Buena Vista Regional Medical Center

## Management's Discussion and Analysis

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### Capital Assets

During fiscal year 2013, BVRMC invested \$847,000 in a broad range of capital assets included in Table 7 below.

**Table 7: Capital Assets**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land and Land Improvements	\$ 2,280,000	2,355,000	2,330,000	(75,000)	-3%
Buildings and Fixed Equipment	33,855,000	35,041,000	34,579,000	(1,186,000)	-3%
Major Movable Equipment	<u>14,563,000</u>	<u>16,591,000</u>	<u>15,374,000</u>	<u>(2,028,000)</u>	-12%
Subtotal	50,698,000	53,987,000	52,283,000	(3,289,000)	-6%
Less: Accumulated Depreciation	<u>29,134,000</u>	<u>29,537,000</u>	<u>26,636,000</u>	<u>(403,000)</u>	-1%
Net Property, Plant, and Equipment	<u>\$ 21,564,000</u>	<u>24,450,000</u>	<u>25,647,000</u>	<u>(2,886,000)</u>	-12%
Construction in Progress	<u>\$ 219,000</u>	<u>177,000</u>	<u>576,000</u>	<u>42,000</u>	24%

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 increase in Construction in Progress is due to the architect fees related to the master facility plan.

### Long-Term Debt (including Capital Leases)

At June 30, 2013, BVRMC had \$4,733,000 in short-term and long-term debt. This has decreased \$444,000 from fiscal year 2012, 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 7.5% of BVRMC's total assets at June 30, 2013.

### 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](mailto:Ketcham.Krista@bvrmc.org)

## Buena Vista Regional Medical Center

### Statements of Net Position June 30, 2013 and 2012

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
Current assets:		
Cash and cash equivalents	\$ 6,413,725	5,448,096
Investments	4,497,980	2,984,590
Receivables -		
Patient, net of allowance for doubtful accounts of \$1,946,000 in 2013 and \$1,849,000 in 2012	5,269,668	6,040,216
Other receivables	1,708,388	504,793
Succeeding year property tax receivable	396,651	376,369
Inventory	1,171,176	1,048,691
Prepaid expenses	388,953	375,658
Investments limited as to use or restricted	270,242	383,324
Estimated third-party payor settlements	153,819	408,647
Total current assets	<u>20,270,602</u>	<u>17,570,384</u>
Investments limited as to use or restricted:		
Internally designated assets	20,503,072	19,683,887
Bond restricted funds	400,000	400,000
Donor restricted funds	105,028	87,522
	<u>21,008,100</u>	<u>20,171,409</u>
Less amount required to meet current obligations	<u>270,242</u>	<u>383,324</u>
Total investments limited as to use or restricted, net of current portion	<u>20,737,858</u>	<u>19,788,085</u>
Capital assets, net	<u>21,782,716</u>	<u>24,626,626</u>
Deferred financing costs	<u>52,302</u>	<u>55,949</u>
Total assets	<u>\$ 62,843,478</u>	<u>62,041,044</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Current portion of long-term debt	\$ 455,610	444,417
Accounts payable	1,167,301	819,693
Accrued salaries and vacation	1,739,118	1,743,502
Accrued health insurance	242,000	242,000
Payroll taxes withheld and other accrued expenses	279,829	437,282
Deferred revenue for succeeding year property tax receivable	396,653	376,369
Total current liabilities	<u>4,280,511</u>	<u>4,063,263</u>
Long term debt, net of current portion	<u>4,276,954</u>	<u>4,732,564</u>
Total liabilities	<u>8,557,465</u>	<u>8,795,827</u>
Commitments and contingencies		
Net position:		
Invested in capital assets, net of related debt	17,050,152	19,449,645
Restricted - expendable	105,028	87,522
Unrestricted	<u>37,130,833</u>	<u>33,708,050</u>
Total net position	<u>54,286,013</u>	<u>53,245,217</u>
Total liabilities and net position	<u>\$ 62,843,478</u>	<u>62,041,044</u>

See notes to financial statements

## Buena Vista Regional Medical Center

### Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 38,998,620	39,897,535
Provision for bad debt	<u>(1,226,003)</u>	<u>(1,483,997)</u>
Net patient service revenue	37,772,617	38,413,538
Other operating revenue	<u>3,516,869</u>	<u>1,961,761</u>
Total operating revenue	<u>41,289,486</u>	<u>40,375,299</u>
OPERATING EXPENSES:		
Salaries	16,700,955	16,829,075
Employee benefits	4,622,929	4,322,313
Purchased services and professional fees	3,097,144	3,146,306
Supplies	8,648,966	8,135,305
Other expenses	3,888,093	3,821,471
Depreciation and amortization	3,602,900	3,478,768
Interest	<u>223,174</u>	<u>232,438</u>
Total operating expenses	<u>40,784,161</u>	<u>39,965,676</u>
OPERATING INCOME	<u>505,325</u>	<u>409,623</u>
NONOPERATING REVENUE:		
County tax revenue	390,392	384,700
Investment income	<u>100,281</u>	<u>149,876</u>
Nonoperating revenue	<u>490,673</u>	<u>534,576</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	995,998	944,199
CAPITAL GRANTS AND CONTRIBUTIONS	<u>44,798</u>	<u>238,542</u>
INCREASE IN NET POSITION	1,040,796	1,182,741
NET POSITION, beginning of year	<u>53,245,217</u>	<u>52,062,476</u>
NET POSITION, end of year	<u>\$ 54,286,013</u>	<u>53,245,217</u>

*See notes to financial statements*

## Buena Vista Regional Medical Center

### Statements of Cash Flows For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient services and third party payors	\$ 38,797,993	37,207,890
Cash paid for employee salaries and benefits	(21,485,047)	(20,754,328)
Cash paid to suppliers and contractors	(15,303,100)	(15,170,142)
Other receipts and payments, net	<u>2,403,732</u>	<u>1,496,725</u>
Net cash provided by operating activities	<u>4,413,578</u>	<u>2,780,145</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	<u>390,392</u>	<u>384,700</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments on capital lease obligations	(249,417)	(243,320)
Payments on long-term debt	(195,000)	(185,000)
Interest payments	(223,848)	(237,739)
Capital grants and contributions	44,798	238,542
Proceeds from sale of property and equipment	1,683	68,587
Purchase of property and equipment	<u>(966,757)</u>	<u>(1,845,921)</u>
Net cash used in capital and related financing activities	<u>(1,588,541)</u>	<u>(2,204,851)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	100,281	149,876
Deposits to investments, net	(1,513,390)	(15,404)
Withdrawals from (deposits to) investments limited as to use or restricted, net	<u>(836,691)</u>	<u>238,875</u>
Net cash provided by (used in) investing activities	<u>(2,249,800)</u>	<u>373,347</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	965,629	1,333,341
CASH AND CASH EQUIVALENTS - Beginning of year	<u>5,448,096</u>	<u>4,114,755</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 6,413,725</u>	<u>5,448,096</u>

*See notes to financial statements*

## Buena Vista Regional Medical Center

### Statements of Cash Flows (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 505,325	409,623
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	3,602,900	3,478,768
(Gain) loss on sale of capital assets	90,458	(52,263)
Interest expense included in operating expenses	223,174	232,438
(Increase) decrease in current assets -		
Receivables -		
Patients	770,548	(628,640)
Other	(1,203,595)	(412,773)
Inventories	(122,485)	(31,927)
Prepaid expenses	(13,295)	(70,250)
Estimated third-party payor settlements	254,828	(408,647)
Increase (decrease) in current liabilities -		
Accounts payable	466,883	35,117
Accrued salaries, vacation, health insurance, payroll taxes withheld and other	(161,163)	397,060
Estimated third-party payor settlements	--	(168,361)
Net cash provided by operating activities	<u>\$ 4,413,578</u>	<u>2,780,145</u>

*See notes to financial statements*

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2013 and 2012

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### (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 (Medical Center). These policies are in accordance with generally accepted accounting principles. The Medical Center is a county Critical Access Hospital with related healthcare ancillary and outpatient services. The Medical Center 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, the Medical Center has included all the funds of the Medical Center, specifically all assets, liabilities, revenue, and expenses over which the Medical Center's governing board exercises oversight responsibility. The Medical Center 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 Medical Center are such that exclusion would cause the Medical Center'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 Medical Center 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 Medical Center. The 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 Medical Center 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 Medical Center'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 statements of net position display the Medical Center's assets and liabilities, with the differences reported as net position. Net position is reported in three categories:

Net investment in capital assets – This component of net position 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.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2013 and 2012

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

*Unrestricted* – This component of net position consists of net position items not meeting the definition of the two preceding categories. Unrestricted net positions 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 Medical Center'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.

*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 determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2013 and 2012

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### 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. *Inventories*

Inventories are 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 Medical Center'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 Medical Center 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 Medical Center'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, 2013 and 2012

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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, 2013 and 2012 is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net position.

*N. Compensated Absences*

Medical Center 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, 2013 and 2012, 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 Medical Center is an instrumentality of the County of Buena Vista, Iowa. As such, the Medical Center is exempt from paying income taxes. However, the Medical Center is subject to federal income tax on any unrelated business income tax.

*Q. Net Patient Service Revenue*

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center 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 Medical Center 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.

*R. Charity Care*

The Medical Center 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 Medical Center 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 Medical Center's charity care policy were \$1,038,083 and \$816,152, for 2013 and 2012, respectively.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2013 and 2012

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### S. *Grants and Contributions*

From time to time, the Medical Center receives contributions from Buena Vista Regional Medical Center Foundation, as well as grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

### T. *Operating Revenue and Expenses*

The Medical Center's statements of revenue, expenses and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with the provision of health care services – the Medical Center's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

### U. *Excess of Revenue Over Expenses*

The statements of revenue, expenses and changes in net position include excess of revenue over expenses as a performance indicator. Changes in unrestricted net position 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.)

### V. *Insurance*

The Medical Center is commercially insured for property and casualty, general and professional liability and worker's compensation risks. The Medical Center is self-insured under its employee group health program. Claims are charged to expense in the period in which they are incurred.

### W. *Change in Accounting Principle*

During 2013, the Medical Center adopted the provisions of GASB Statement No. 63, which requires the Medical Center to now refer to "Net Assets" as "Net Position" on the statements of net position.

### X. *Reclassifications*

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 reporting format.

### Y. *Subsequent Events*

The Medical Center considered events occurring through September 24, 2013 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, 2013 and 2012

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

The Medical Center's deposits in banks at June 30, 2013 and 2012 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 Medical Center 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 Medical Center manages the following risks in accordance with their formal investment policy:

*Credit Risk:* The Medical Center 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 Medical Center 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 Medical Center 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, 2013 is as follows:

Certificates of deposit	7 months
U.S. Government Agencies	14 years
Corporate bonds	6 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 Medical Center'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 Medical Center's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Medical Center's agent in the Medical Center's name.

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2013 and 2012

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The composition of investments and investments limited as to use or restricted as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Investments (operating reserves):		
Cash and cash equivalents	\$ 4,476	727
Certificates of deposit	3,987,073	2,112,229
Corporate bonds	503,000	868,000
Interest receivable	3,431	3,634
Total investments	<u>\$ 4,497,980</u>	<u>2,984,590</u>
Investments Limited as to Use or Restricted:		
By Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 8,360,780	7,584,026
Certificates of deposit	12,115,653	12,064,320
U.S. government agencies	10,992	14,087
Interest receivable	15,647	21,454
	<u>20,503,072</u>	<u>19,683,887</u>
By Hospital Revenue Bond Agreement:		
Cash and cash equivalents	400,000	400,000
By Donor:		
Cash and cash equivalents	<u>105,028</u>	<u>87,522</u>
Total investments limited as to use or restricted	21,008,100	20,171,409
Less amounts required to meet current obligations	<u>270,242</u>	<u>383,324</u>
Long-term portion	<u>\$ 20,737,858</u>	<u>19,788,085</u>

Investment return, including return on investments limited as to use or restricted, for the years ended June 30, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 101,188	150,602
Change in unrealized gains (loss), net	<u>(907)</u>	<u>(726)</u>
Total investment return	<u>\$ 100,281</u>	<u>149,876</u>

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2013 and 2012

### (3) Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center 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 Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, will incur a two percent reduction in Medicare payment.

**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. From July 1, 2011 through June 30, 2012, Medicaid reimbursement was 97.5% of defined costs. Effective July 1, 2012, Medicaid changed reimbursement paid to 99% of defined costs. The Medical Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Medical Center 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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue:		
Medical Center -		
Inpatient	\$ 11,676,931	13,140,310
Outpatient	44,101,019	43,512,745
Swingbed	799,147	737,302
Behavioral health	4,431,428	4,374,715
Hospice	496,765	1,616,973
	<u>61,505,290</u>	<u>63,382,045</u>
Total gross patient service revenue		
Contractual adjustments:		
Medicare	10,458,656	11,702,124
Medicaid	1,530,506	1,476,209
Other	9,479,425	9,490,025
Charity care services	1,038,083	816,152
	<u>22,506,670</u>	<u>23,484,510</u>
Total contractual adjustments		
Net patient service revenue before provision for bad debt	<u>\$ 38,998,620</u>	<u>39,897,535</u>

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2013 and 2012

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The Medical Center 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 45.0% and 9.0%, respectively, of the Medical Center's gross patient service revenue for the year ended June 30, 2013, and 46.5% and 8.1%, respectively, for the year ended June 30, 2012. The Medical Center 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 2013 and 2012 net patient service revenue increased approximately \$13,000 and \$171,000, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, reviews, and investigations.

### (4) Composition of Patient Receivables

Patient receivables as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Patient receivables	\$ 10,151,168	11,220,216
Less estimated third-party contractual adjustments	(2,935,500)	(3,331,000)
Less allowance for doubtful accounts	<u>(1,946,000)</u>	<u>(1,849,000)</u>
	<u>\$ 5,269,668</u>	<u>6,040,216</u>

The Medical Center 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>2013</u>	<u>2012</u>
Medicare	41%	37%
Medicaid	5	9
Commercial insurance	38	38
Patients and residents	<u>16</u>	<u>16</u>
	<u>100%</u>	<u>100%</u>

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2013 and 2012

### (5) Capital Assets

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

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2013</u>
Capital assets, not being depreciated,				
Land	\$ 627,698	--	--	627,698
Construction in progress	176,970	157,343	(115,530)	218,783
Total capital assets not being depreciated	<u>804,668</u>	<u>157,343</u>	<u>(115,530)</u>	<u>846,481</u>
Capital assets, being depreciated:				
Land improvements	1,727,284	14,068	(89,023)	1,652,329
Buildings	31,577,772	78,272	(17,378)	31,638,666
Fixed equipment	3,463,101	951	(1,247,126)	2,216,926
Major movable equipment	16,590,976	596,846	(2,625,138)	14,562,684
Total capital assets, being depreciated	<u>53,359,133</u>	<u>690,137</u>	<u>(3,978,665)</u>	<u>50,070,605</u>
Less accumulated depreciation:				
Land improvements	(794,212)	(67,958)	89,024	(773,146)
Buildings	(15,418,021)	(1,381,337)	31,093	(16,768,265)
Fixed equipment	(2,526,763)	(180,850)	1,240,748	(1,466,865)
Major movable equipment	(10,798,179)	(1,969,106)	2,641,191	(10,126,094)
Total accumulated depreciation	<u>(29,537,175)</u>	<u>(3,599,251)</u>	<u>4,002,056</u>	<u>(29,134,370)</u>
Total capital assets, being depreciated, net	<u>23,821,958</u>	<u>(2,909,114)</u>	<u>23,391</u>	<u>20,936,235</u>
Total capital assets, net	<u>\$ 24,626,626</u>	<u>(2,751,771)</u>	<u>(92,139)</u>	<u>21,782,716</u>
	<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, 2013 and 2012

Total depreciation for the year ended June 30, 2013 and 2012, including depreciation on rental property owned by the Medical Center, was \$3,599,251 and \$3,475,119 respectively.

Construction in progress as of June 30, 2013 consisted of costs related to architect fees related to a Master Facility expansion/remodel project and various other minor projects. The Master Facility plan is still in the planning phase.

#### (6) Long-Term Debt

Long-term debt activity of the Medical Center as of June 30, 2013 and 2012 consisted of the following:

	June 30, 2012	Borrowings	Payments	June 30, 2013	Due Within One Year
Series 2007 hospital revenue bonds (A)	\$ 4,410,000	--	(195,000)	4,215,000	200,000
Capital lease obligation (B)	766,981	--	(249,417)	517,564	255,610
	<u>\$ 5,176,981</u>	<u>--</u>	<u>(444,417)</u>	<u>4,732,564</u>	<u>455,610</u>
	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>

(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 4.25% to 5.00% payable semi-annually. Annual principal payments are due in amounts ranging from \$200,000 to \$1,000,000 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:

	Long-Term Debt Principal	Capital Lease Principal	Interest
2014	\$ 200,000	255,610	209,360
2015	210,000	261,954	194,197
2016	220,000	--	180,688
2017	230,000	--	170,560
2018	240,000	--	159,748
2019 – 2023	1,370,000	--	625,099
2024 – 2027	1,000,000	--	274,000
2028	745,000	--	18,625
	<u>\$ 4,215,000</u>	<u>517,564</u>	<u>1,832,277</u>

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>
Cost	\$ 605,616	1,650,723
Less: Accumulated amortization	<u>(581,298)</u>	<u>(1,568,896)</u>
Net book value	<u>\$ 24,318</u>	<u>81,827</u>

#### (7) Other Operating Revenue

Other operating revenue for the years ended June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
340B revenue	\$ 1,527,142	106,988
Cafeteria	416,711	400,870
Rental income	366,600	311,791
Electronic health record incentive payment	350,928	266,783
School nurse	254,969	226,200
Fitness center	223,359	185,352
Grants	115,566	103,480
Lifeline	74,586	71,743
Gain (loss) on sale of capital assets	(90,458)	52,263
Other	<u>277,466</u>	<u>236,291</u>
	<u>\$ 3,516,869</u>	<u>1,961,761</u>

#### (8) Pension and Retirement Benefits

The Medical Center 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 5.78% and 5.38% of their annual covered salary and the Medical Center is required to contribute 8.67% and 8.07% of annual covered salary for 2013 and 2012, respectively. Contribution requirements are established by State statute. The Medical Center's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$1,432,504, \$1,330,949, and \$1,118,087 respectively.

#### (9) Affiliated Organization

The Medical Center has an operating agreement with UnityPoint Health – Trinity (Trinity). Under the agreement, the Medical Center's Chief Executive Officer is an employee of Trinity and the Medical Center reimburses Trinity for the cost of the Chief Executive Officer's salaries and benefits. The Medical Center also pays Trinity a monthly management fee. Under the agreement, Trinity exercises joint authority over the Medical Center's operations with the Medical Center's board. Trinity consults and works with the Medical Center's board in formulating management strategies and recommendations regarding operations.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2013 and 2012

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The following is a list of year end balances and transactions between the Medical Center and these affiliates for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Fees to affiliate for personnel and services	\$ <u>455,976</u>	<u>379,211</u>

### (10) Risk Management

The Medical Center 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 Medical Center 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, 2013.

### (11) Professional Liability Insurance

The Medical Center 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 Medical Center 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 Medical Center 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 Medical Center'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 Medical Center. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Medical Center 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 Medical Center. Therefore, the Foundation is not reported with the Medical Center under GASB Statement 39.

A summary of the Foundation's assets, liabilities and net position, based on a modified cash basis, as of June 30, 2013 and 2012 follows:

	<u>(Unaudited)</u>	
	<u>2013</u>	<u>2012</u>
Assets	\$ <u>3,324,041</u>	<u>3,335,538</u>
Net position	\$ <u>3,314,242</u>	<u>3,233,604</u>

The Medical Center received \$46,894 and \$250,422 from the Foundation during the year ended June 30, 2013 and 2012, respectively, for the purchase of property and equipment. As of June 30, 2013, the Foundation has no pledges receivable related to Medical Center projects.

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2013 and 2012

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#### (13) Self-Funded Health Insurance

The Medical Center has established an employee health insurance fund. Under the self-insured plan, the Medical Center pays claims from this fund up to maximum limits and carries stop loss insurance for claim in excess of the limits. At June 30, 2013 and 2012, the Medical Center has accumulated funds in excess of actual claims paid of \$582,778 and \$592,238, respectively. These funds, shown under cash, are to be used to pay claims as they are filed in the future. The amount of estimated incurred but unpaid claims at June 30, 2013 and 2012 was \$242,000.

#### (14) Contingencies

The Medical Center 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 Medical Center's financial position or results from operations.

#### (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 Medical Center.

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 Medical Center'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 Medical Center'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 Position Budget and Actual (Cash Basis)

For the Year Ended June 30, 2013

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 390,392	--	390,392	376,369	14,023
Estimated other revenues / receipts	41,434,565	(86,078)	41,348,487	38,737,631	2,610,856
Expenses / disbursements	<u>40,784,161</u>	<u>(2,360,992)</u>	<u>38,423,169</u>	<u>49,100,681</u>	<u>10,677,512</u>
Net	1,040,796	2,274,914	3,315,710	(9,986,681)	<u>\$ 13,302,391</u>
Balance, beginning of year	<u>53,245,217</u>	<u>(24,641,122)</u>	<u>28,604,095</u>	<u>28,604,095</u>	
Balance, end of year	<u>\$ 54,286,013</u>	<u>(22,366,208)</u>	<u>31,919,805</u>	<u>18,617,414</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 Medical Center 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, 2013, the Medical Center's expenditures did not exceed the amount budgeted.

Schedules of Patient Service Revenue  
For the Years Ended June 30, 2013 and 2012

	2013						2012					
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total
<b>DAILY PATIENT SERVICES:</b>												
Behavioral health	--	320,149	--	3,530,860	--	3,851,009	--	149,625	--	3,281,580	--	3,431,205
Medical and surgical	\$ 1,288,461	479,003	--	--	41,444	1,808,908	1,485,435	498,976	--	--	41,385	2,025,796
Obstetric	1,591,148	--	--	--	--	1,591,148	1,419,123	--	--	--	--	1,419,123
Coronary care	344,310	--	--	--	--	344,310	363,278	--	--	--	--	363,278
Swing bed	--	--	178,104	--	--	178,104	--	--	166,942	--	--	166,942
Hospice	--	--	--	--	23,742	23,742	--	--	--	--	1,065,028	1,065,028
	<u>3,223,919</u>	<u>799,152</u>	<u>178,104</u>	<u>3,530,860</u>	<u>65,186</u>	<u>7,797,221</u>	<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>
<b>OTHER NURSING SERVICES:</b>												
Operating and recovery room	1,910,944	6,391,249	8,644	--	--	8,310,837	2,240,945	6,729,447	2,542	--	--	8,972,934
Medical and surgical supplies	1,893,473	1,253,738	7,862	--	702	3,155,775	2,530,953	1,198,323	8,997	936	2,556	3,741,765
Outpatient service	62,279	2,633,446	10,538	8,182	351	2,714,796	72,243	2,074,315	6,024	5,528	324	2,158,434
Emergency services	--	2,583,872	--	--	--	2,583,872	69	2,466,237	--	--	--	2,466,306
Delivery and labor room	--	259,474	--	--	--	259,474	--	263,446	--	--	--	263,446
Cardiac rehabilitation	--	176,122	--	--	--	176,122	--	128,374	--	--	--	128,374
Maternal child care	--	7,069	--	--	--	7,069	--	6,417	--	--	--	6,417
Homecare	--	1,604	--	--	--	1,604	--	408,606	--	--	--	408,606
Private duty nursing	--	--	--	--	--	--	--	41,651	--	--	--	41,651
	<u>3,866,696</u>	<u>13,306,574</u>	<u>27,044</u>	<u>8,182</u>	<u>1,053</u>	<u>17,209,549</u>	<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>
<b>OTHER PROFESSIONAL SERVICES:</b>												
Pharmacy	1,550,568	10,711,321	214,602	554,159	416,258	13,446,908	1,708,049	10,376,431	247,575	728,124	464,381	13,524,560
Laboratory	707,850	3,100,774	39,483	223,277	2,690	4,074,074	671,251	2,823,059	35,668	221,350	7,710	3,759,038
Radiology	104,456	3,779,615	6,673	12,621	596	3,903,961	86,244	3,608,922	4,443	10,501	435	3,710,545
Respiratory therapy	1,242,430	508,610	204,264	64,280	6,277	2,025,861	1,445,758	532,312	148,252	96,319	16,156	2,238,797
CT scans	201,416	1,682,030	6,773	4,201	--	1,894,420	215,504	1,830,075	8,130	2,448	--	2,056,157
Nuclear medicine	50,449	1,748,349	--	1,339	--	1,800,137	66,110	1,811,983	687	--	1,300	1,880,080
ER physicians	--	1,603,424	--	--	--	1,603,424	--	1,566,811	--	--	--	1,566,811
Oncology	349	1,425,270	--	--	--	1,425,619	702	1,037,896	--	--	--	1,042,747
Physical therapy	126,769	1,174,723	63,344	15,034	1,240	1,381,110	156,896	1,329,520	60,922	13,910	5,841	1,567,089
Ultrasound	123,040	1,046,514	1,322	1,193	1,284	1,173,353	119,469	1,045,367	2,613	585	--	1,168,034
Ambulance	140,223	926,046	8,106	4,047	395	1,078,817	108,371	1,024,653	4,428	1,466	2,496	1,141,414
Anesthesiology	111,164	645,974	103	--	--	757,241	138,584	693,039	100	--	--	831,723
Occupational therapy	71,791	451,147	40,904	738	--	564,580	68,277	518,135	32,778	1,437	132	620,759
Electrocardiology	65,461	443,860	1,829	8,745	--	519,895	72,788	469,023	1,491	5,572	--	548,874
Electroencephalography	--	516,385	--	--	--	516,385	--	596,085	--	--	--	597,757
Blood administration	84,453	151,421	4,327	--	1,786	241,987	161,549	183,517	4,332	744	4,531	354,673
Diabetic education	--	46,190	--	--	--	46,190	--	39,019	--	--	--	39,019
Speech therapy	5,897	30,417	2,269	2,752	--	41,335	7,040	49,527	1,378	4,215	549	62,709
Dietary	--	2,254	--	--	--	2,254	--	11,581	--	--	--	11,581
Infection control	--	943	--	--	--	943	--	373	--	--	--	373
Cardiopulmonary	--	26	--	--	--	26	--	--	--	--	--	--
	<u>4,586,316</u>	<u>29,995,293</u>	<u>593,999</u>	<u>892,386</u>	<u>430,526</u>	<u>36,498,520</u>	<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>
Gross patient service revenue	\$ <u>11,676,931</u>	<u>44,101,019</u>	<u>799,147</u>	<u>4,431,428</u>	<u>496,765</u>	<u>61,505,290</u>	<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>
<b>LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE</b>												
Contractual allowances and other deductions, primarily Medicare and Medicaid						(21,468,587)						(22,668,358)
Charity care services and other discounts, based on charges forgone						(1,038,083)						(816,152)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>						38,998,620						39,897,535
Provision for bad debt						(1,226,003)						(1,483,997)
<b>NET PATIENT SERVICE REVENUE</b>						\$ <u>37,772,617</u>						<u>38,413,538</u>

**Other Operating Revenue**  
**For the Years Ended June 30, 2013 and 2012**

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	<u>2013</u>	<u>2012</u>
340B revenue	\$ 1,527,142	106,988
Electronic health record incentive payment	350,928	266,783
Cafeteria	416,711	400,870
Rental income	366,600	311,791
School nurse	254,969	226,200
Fitness center	223,359	185,352
Contracted revenue	125,430	8,777
Grants	115,566	103,480
Miscellaneous	95,484	156,287
Lifeline	74,586	71,743
Purchasing rebates	31,967	46,250
Coffee shop	22,862	23,207
Vending machines	1,723	1,770
Gain (loss) on sale of capital assets	<u>(90,458)</u>	<u>52,263</u>
	<u>\$ 3,516,869</u>	<u>1,961,761</u>

Departmental Expenses  
For the Years Ended June 30, 2013 and 2012

	2013				2012			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Medical and surgical	\$ 1,676,652	100,008	569,654	2,346,314	1,641,073	100,008	527,618	2,268,699
Operating and recovery room	647,495	173,775	1,264,673	2,085,943	662,699	200,250	1,205,791	2,068,740
Emergency services	1,117,794	150	435,820	1,553,764	1,098,609	--	428,316	1,526,925
Obstetric	1,073,735	--	456,681	1,530,416	929,699	562	394,646	1,324,907
Behavioral health	996,537	36,772	373,369	1,406,678	1,007,420	131,295	342,486	1,481,201
Outpatient services	751,054	--	513,517	1,264,571	748,905	--	491,645	1,240,550
Medical and surgical supplies	59,463	--	1,079,298	1,138,761	63,074	--	1,399,267	1,462,341
Coronary care	480,046	--	159,462	639,508	482,837	--	147,724	630,561
School	197,142	--	57,845	254,987	182,022	--	48,913	230,935
Cardiac rehabilitation	161,408	--	51,866	213,274	163,780	--	51,498	215,278
Nursing administration	123,544	--	38,668	162,212	135,258	--	37,627	172,885
Lifeline	2,236	--	60,502	62,738	2,270	--	64,969	67,239
Homecare	--	--	2,915	2,915	395,567	23,100	183,251	601,918
Private duty nurses	--	--	--	--	32,875	--	19,054	51,929
Hospice	--	--	--	--	369,762	26,466	254,651	650,879
	<u>7,287,106</u>	<u>310,705</u>	<u>5,064,270</u>	<u>12,662,081</u>	<u>7,915,850</u>	<u>481,681</u>	<u>5,597,456</u>	<u>13,994,987</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Pharmacy	478,311	--	3,999,192	4,477,503	449,174	--	3,118,114	3,567,288
Radiology	900,070	855,605	629,782	2,385,457	788,726	865,493	608,516	2,262,735
Laboratory	671,474	346,868	677,131	1,695,473	664,304	255,722	602,303	1,522,329
ER physicians	--	1,103,954	14,387	1,118,341	--	1,064,926	23,816	1,088,742
Physical therapy	654,005	9	252,667	906,681	673,602	808	237,286	911,696
Medical records	416,723	--	302,455	719,178	404,669	--	280,591	685,260
Oncology	413,575	--	175,715	589,290	376,094	--	151,966	528,060
Respiratory therapy	240,328	--	187,411	427,739	253,498	--	182,208	435,706
Fitness center	224,725	--	114,040	338,765	215,878	--	97,336	313,214
Occupational therapy	257,868	--	76,137	334,005	277,814	273	97,266	375,353
Ambulance	164,097	300	134,995	299,392	133,430	565	123,044	257,039
Nuclear medicine	--	35,918	225,495	261,413	--	9,325	237,290	246,615
Infection control	155,147	--	61,670	216,817	149,224	--	76,731	225,955
Women's center	147,269	--	64,332	211,601	123,285	--	48,260	171,545
Electroencephalography	111,568	--	78,308	189,876	99,479	--	73,911	173,390
Blood administration	--	--	163,821	163,821	--	--	198,476	198,476
Electrocardiology	62,311	23,127	38,853	124,291	67,127	24,605	42,084	133,816
Diabetic education	88,215	--	35,156	123,371	83,292	--	30,056	113,348
CT scans	--	--	92,002	92,002	--	--	105,204	105,204
Specialty clinics	54,623	--	37,222	91,845	54,613	--	34,704	89,317
Anesthesiology	--	37,305	45,990	82,795	--	34,465	45,576	80,041
Ultrasound	--	833	24,948	25,781	--	1,680	36,045	37,725
Speech therapy	638	19,048	213	19,899	645	44,791	212	45,648
	<u>5,040,947</u>	<u>2,422,967</u>	<u>7,431,422</u>	<u>14,895,336</u>	<u>4,814,854</u>	<u>2,302,653</u>	<u>6,450,995</u>	<u>13,568,502</u>
<b>GENERAL SERVICES:</b>								
Plant	418,885	--	905,081	1,323,966	403,700	--	913,961	1,317,661
Dietary	576,594	--	673,661	1,250,255	567,217	--	634,517	1,201,734
Housekeeping	468,305	--	199,501	667,806	459,246	--	188,372	647,618
Laundry and linen	--	--	119,122	119,122	--	--	119,100	119,100
	<u>1,463,784</u>	<u>--</u>	<u>1,897,365</u>	<u>3,361,149</u>	<u>1,430,163</u>	<u>--</u>	<u>1,855,950</u>	<u>3,286,113</u>
<b>ADMINISTRATIVE SERVICES:</b>								
	<u>2,909,118</u>	<u>363,472</u>	<u>2,547,900</u>	<u>5,820,490</u>	<u>2,668,208</u>	<u>361,972</u>	<u>2,179,121</u>	<u>5,209,301</u>
<b>NONDEPARTMENTAL:</b>								
Depreciation and amortization	--	--	3,602,900	3,602,900	--	--	3,478,768	3,478,768
Interest	--	--	223,174	223,174	--	--	232,438	232,438
Insurance	--	--	219,031	219,031	--	--	195,567	195,567
	<u>--</u>	<u>--</u>	<u>4,045,105</u>	<u>4,045,105</u>	<u>--</u>	<u>--</u>	<u>3,906,773</u>	<u>3,906,773</u>
<b>TOTAL EXPENSES</b>	<u>\$ 16,700,955</u>	<u>3,097,144</u>	<u>20,986,062</u>	<u>40,784,161</u>	<u>16,829,075</u>	<u>3,146,306</u>	<u>19,990,295</u>	<u>39,965,676</u>

**Patient Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2013 and 2012**

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ANALYSIS OF AGING:

Days Since Discharge	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0 - 60	\$ 7,581,861	74.69 %	7,925,369	70.64 %
61 - 120	1,356,010	13.36	1,729,515	15.41
121 - 180	598,839	5.90	688,851	6.14
181 - and over	<u>614,458</u>	<u>6.05</u>	<u>876,481</u>	<u>7.81</u>
	10,151,168	100.00 %	11,220,216	100.00 %
Less:				
Allowance for doubtful accounts	(1,946,000)		(1,849,000)	
Allowance for contractual adjustments	<u>(2,935,500)</u>		<u>(3,331,000)</u>	
	\$ <u>5,269,668</u>		<u>6,040,216</u>	

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 1,849,000	1,607,000
Provision of uncollectible accounts	1,226,003	1,483,997
Recoveries of accounts previously written off	397,601	532,167
Accounts written off	<u>(1,526,604)</u>	<u>(1,774,164)</u>
Balance, end of year	\$ <u>1,946,000</u>	<u>1,849,000</u>

**Inventory / Prepaid Expenses  
For the Years Ended June 30, 2013 and 2012**

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	<u>2013</u>	<u>2012</u>
INVENTORY:		
Surgery	\$ 485,354	392,009
Pharmacy	449,134	427,511
Central service	<u>236,688</u>	<u>229,171</u>
	<u>\$ 1,171,176</u>	<u>1,048,691</u>
PREPAID EXPENSES:		
Service contracts	\$ 154,421	205,196
Dues	97,753	83,114
Other	96,473	40,543
Insurance	<u>40,306</u>	<u>46,805</u>
	<u>\$ 388,953</u>	<u>375,658</u>

**Financial Statistical Highlights  
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Patient days:		
Hospital -		
Adult and pediatric	3,002	3,379
Newborn	767	708
Swing bed - skilled	566	543
Hope Harbor	<u>3,343</u>	<u>3,187</u>
	<u>7,678</u>	<u>7,817</u>
Discharges:		
Hospital adult and pediatric	<u>1,027</u>	<u>1,099</u>
Average length of stay:		
Hospital adult and pediatric	2.92	3.07
Observation visits	499	572
Surgical procedures	2,847	2,973
Emergency room visits	7,852	7,849
Full-time equivalents personnel	335	347

**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, in accordance with the 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, the financial statements of Buena Vista Regional Medical Center (Medical Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated September 24, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

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 Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item II-A-13, that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Medical Center'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*.

**The Medical Center's Response to Findings**

The Medical Center's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Medical Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SEIM JOHNSON, LLP

Omaha, Nebraska,  
September 24, 2013.

# Buena Vista Regional Medical Center

## Schedule of Findings and Responses June 30, 2013

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### Part I: Summary of the Independent Auditor's Results

- a. An unmodified opinion was issued on the financial statements.
- b. A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

### Part II: Findings Related to the Financial Statements

#### Internal Control Deficiencies

##### II-A-13

*Criteria:* The design or operation of the Medical Center'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 Medical Center'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 Medical Center 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 Medical Center 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-13

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, 2013.

#### III-B-13

Certified Budget: Medical Center disbursements during the year ended June 30, 2013, did not exceed budgeted amounts.

# Buena Vista Regional Medical Center

## Schedule of Findings and Responses June 30, 2013

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### III-C-13

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 Medical Center 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-13

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

### III-E-13

Business Transactions: No business transactions between the Medical Center and Medical Center 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 Medical Center to \$1,500 without publicly invited and opened written competitive bids.

### III-F-13

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

### III-G-13

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 Medical Center's investment policy.

### III-H-13

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 Medical Center 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, 2013**

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<b>Finding</b>	<b>Status</b>	<b>Corrective Action Plan or Other Explanation</b>
II-A-12	Allowance estimation and review process	Unresolved, similar finding reported at II-A-13

## **Buena Vista Regional Medical Center**

### **Audit Staff**

**For the Year Ended June 30, 2013**

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#### **This audit was performed by:**

- Brian D. Green, FHFMA, CPA, Partner
- Darren R. Osten, FHFMA, CPA, Partner
- Morgan L. Meyer, CPA, In-charge Auditor
- John M. Shurtliff, Staff Auditor