

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

**Financial Statements  
and Supplementary Information  
June 30, 2014 and 2013**

**Together with Independent Auditor's Report**

# Buena Vista Regional Medical Center

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# Buena Vista Regional Medical Center

Officials  
June 30, 2014

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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 financial statements of Buena Vista Regional Medical Center (Medical Center), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

### 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, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2014 the Medical Center adopted new accounting guidance to reflect the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 9) and the budgetary comparison information (page 28) 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.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The supplementary information in Exhibits 1 – 6 are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information (Exhibits 1 – 6) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 (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 26, 2014 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 26, 2014.

# 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 years ended on June 30, 2014 and 2013. Please read it in conjunction with the financial statements in this report, which follow.

### Financial Highlights

- BVRMC's 2014 total assets increased by approximately \$3,394,000 or 5%, primarily due to the financial results for the year ended June 30, 2014. BVRMC's 2013 total assets increased by approximately \$750,000 or 1%.
- During the year, BVRMC's total operating revenues increased approximately \$3,383,000 to \$44,672,000, or 8%, from the prior year while expenses increased \$2,834,000, or 7%, to \$43,614,000. BVRMC had operating income of \$1,058,000 which is 2% of total operating revenue.
- BVRMC received approximately \$413,000 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.
- BVRMC made capital investments for a total of approximately \$4,880,000 and \$847,000 during 2014 and 2013, respectively. The following is a list of significant items:

<u>Department</u>	<u>2014 Cost</u>	<u>Department</u>	<u>2013 Cost</u>
Master facility plan	2,349,000	Information Services	\$165,000
Information Services - Conversion	1,491,000	Diagnostic Imaging	146,000
Diagnostic Imaging	505,000	Surgery	135,000
Surgery	209,000	Plant	71,000
Ambulance	154,000	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 Financial Position include all of BVRMC's assets, deferred outflows, liabilities, and deferred inflows and provide information about the nature and amounts of investments in resources and the obligations to BVRMC creditors. 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 two years and can be used to determine whether BVRMC has been able to recover all of its costs through its patient service revenue and other revenue sources.
- The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about BVRMC's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

# Buena Vista Regional Medical Center

## Management's Discussion and Analysis

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### Financial Analysis of BVRMC

The statements of financial 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.

#### 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>2014</u>	<u>2013 Restated</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets:</b>					
Total current assets	\$ 23,643,000	20,271,000	17,570,000	3,372,000	17%
Net capital assets	22,985,000	21,783,000	24,627,000	1,202,000	6%
Other assets, including funded depreciation	<u>19,557,000</u>	<u>20,737,000</u>	<u>19,844,000</u>	<u>(1,180,000)</u>	-6%
Total assets	<u>66,185,000</u>	<u>62,791,000</u>	<u>62,041,000</u>	<u>3,394,000</u>	5%
<b>Liabilities:</b>					
Current liabilities	5,734,000	3,884,000	3,687,000	1,850,000	48%
Long-term debt	<u>4,139,000</u>	<u>4,277,000</u>	<u>4,733,000</u>	<u>(138,000)</u>	-3%
Total liabilities	<u>9,873,000</u>	<u>8,161,000</u>	<u>8,420,000</u>	<u>1,712,000</u>	21%
<b>Deferred inflows of Resources,</b>					
Unavailable property tax revenue	<u>397,000</u>	<u>396,000</u>	<u>376,000</u>	<u>1,000</u>	0%
<b>Net Position,</b>					
Net position	<u>\$ 55,915,000</u>	<u>54,234,000</u>	<u>53,245,000</u>	<u>1,681,000</u>	3%

Total assets increased by \$3,394,000 to \$66,185,000 in fiscal year 2014, up from \$62,791,000 in fiscal year 2013. 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, 2014, 2013 and 2012:

# Buena Vista Regional Medical Center

## Management's Discussion and Analysis

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

	<u>2014</u>	<u>2013 Restated</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:					
Net patient service revenue	\$ 40,595,000	37,772,000	38,413,000	2,823,000	7%
Other	4,077,000	3,517,000	1,962,000	560,000	16%
Net operating revenue	<u>44,672,000</u>	<u>41,289,000</u>	<u>40,375,000</u>	<u>3,383,000</u>	8%
Expenses:					
Salaries and employee benefits	22,466,000	21,324,000	21,152,000	1,142,000	5%
Professional fees	3,636,000	3,097,000	3,146,000	539,000	17%
Supplies and other expenses	13,885,000	12,537,000	11,957,000	1,348,000	11%
Depreciation, amortization and interest	3,627,000	3,822,000	3,711,000	(195,000)	-5%
Total operating expenses	<u>43,614,000</u>	<u>40,780,000</u>	<u>39,966,000</u>	<u>2,834,000</u>	7%
Operating income	1,058,000	509,000	409,000	549,000	108%
Non-operating income	541,000	491,000	535,000	50,000	10%
Excess of revenue and expenses					
before capital grants and contributions	1,599,000	1,000,000	944,000	599,000	60%
Capital grants and contributions	82,000	45,000	239,000	37,000	82%
Increase in net position	<u>1,681,000</u>	<u>1,045,000</u>	<u>1,183,000</u>	<u>636,000</u>	61%
Net position – beginning of year, as previously reported					
	54,234,000	53,245,000	52,062,000	989,000	2%
Cumulative effect of accounting change					
	--	(56,000)	--	56,000	-100%
Net position – beginning of year, as restated					
	<u>54,234,000</u>	<u>53,189,000</u>	<u>52,062,000</u>	<u>1,045,000</u>	2%
Net position – end of year					
	<u>\$ 55,915,000</u>	<u>54,234,000</u>	<u>53,245,000</u>	<u>1,681,000</u>	3%

Days in accounts receivable increased from 49 days in fiscal year 2013 to 67 days in fiscal year 2014.

Salary expenses increased \$812,000 or 5% to \$17,513,000 in 2014 from \$16,701,000 in 2013. As a percentage of net patient service revenue, salary expense was 43.1% and 44.2% for the fiscal years ended June 2014 and 2013, respectively. Full-time equivalents increased from 334.52 in 2013 to 338.55 in 2014.

Employee benefit expense increased \$330,000, or 7%. Employee benefit expense represented 28.3% and 27.7% of salary expenses in fiscal years 2014 and 2013 respectively.

Supplies and other expense increased \$1,348,000, or 11% from prior year, primarily due to increase in drug costs. As a percentage of net patient service revenue, supplies expense increased to 34% in fiscal year 2014, and 33% in fiscal year 2013.

Professional fees and Purchased services increased \$539,000, or 17%, primarily due to contracted ARNP and contracted providers.

Depreciation decreased by \$191,000, or 5% in 2014, primarily due to assets becoming fully depreciated during the year. Interest expense decreased from \$223,000 in 2013 to \$219,000 in 2014.

Total operating expenses increased by \$2,834,000, or 7%, for the year ended June 30, 2014 for the reasons discussed above.

# Buena Vista Regional Medical Center

## Management's Discussion and Analysis

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### Sources of Revenue

#### Operating Revenue

BVRMC derived the majority, 91%, of its total operating revenue from patient service revenue in 2014 and 2013. 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, 2014, 2013, and 2012:

**Table 3: Payor Mix by Percentage**

	Year Ended June 30,		
	2014	2013	2012
Medicare	44.51	45.04	46.46
Medicaid	10.10	9.00	8.14
Wellmark	28.92	30.76	30.02
Other commercial	11.68	10.90	12.06
Self-pay and other	4.79	4.30	3.32
Total patient revenues	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

#### Other Revenue

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

**Table 4: Other Revenue**

	Year Ended June 30,			Dollar Change	Percent Change
	2014	2013	2012		
340B drug revenue	\$ 1,708,000	1,527,000	107,000	181,000	11.9%
EHR incentive payment	602,000	351,000	267,000	251,000	71.5%
Cafeteria/vending	427,000	418,000	403,000	9,000	2.2%
Rental income	327,000	367,000	312,000	(40,000)	-10.9%
Contracted services	262,000	255,000	226,000	7,000	2.7%
Fitness center	228,000	223,000	185,000	5,000	2.2%
Grants	108,000	115,000	103,000	(7,000)	-6.1%
Rebates	35,000	32,000	46,000	3,000	9.4%
Other	380,000	229,000	313,000	151,000	65.9%
Total	<u>\$ 4,077,000</u>	<u>3,517,000</u>	<u>1,962,000</u>	<u>560,000</u>	<u>15.9%</u>

# Buena Vista Regional Medical Center

## Management's Discussion and Analysis

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### 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 \$128,000 and \$100,000 during fiscal year 2014 and 2013, respectively. BVRMC also received \$413,000 and \$390,000 in county tax subsidy in fiscal year 2014 and 2013, respectively.

### Operating and Financial Performance

Overall activity at BVRMC, as measured by patient admissions, had no change with 1,682 admissions in 2014, and 1,682 admissions in 2013. Patient days decreased from 7,678 in 2013 to 7,644 in 2014. Total outpatient procedures in the emergency, surgery, radiology, and laboratory departments increased 1% to 112,831 in 2014 compared to 112,128 in 2013.

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

	Year Ended June 30			Change	Percent Change
	2014	2013	2012		
Total admissions:					
Acute	1,007	1,020	1,098	(13)	-1%
Newborn	374	365	330	9	2%
Swing bed	126	128	129	(2)	-2%
Hope harbor	175	169	160	6	4%
Total days care					
Acute	2,998	3,002	3,379	(4)	0%
Newborn	802	767	708	35	5%
Swing bed	659	566	543	93	16%
Hope harbor	3,185	3,343	3,187	(158)	-5%
Average daily census					
Acute	7.40	7.40	9.25	--	0%
Newborn	2.20	2.11	1.93	0.09	4%
Swing bed	1.80	1.55	1.46	0.25	16%
Hope harbor	8.73	9.14	8.71	(0.41)	-4%
Average length of stay					
Acute	2.99	2.92	3.07	0.07	2%
Newborn	2.14	2.10	2.10	0.04	2%
Swing bed	5.23	4.42	4.20	0.81	18%
Hope harbor	18.20	19.78	19.90	(1.58)	-8%
Emergency room visits	7,469	7,852	7,849	(383)	-5%
Total surgical procedures	3,193	2,847	2,973	346	12%
Total radiology procedures	18,264	17,243	17,240	1,021	6%
Total laboratory procedures	83,905	84,186	86,122	(281)	0%
Home health visits	0	0	6,255	--	0%
Full-time equivalents (FTE's)	338.55	334.52	347.3	4	1%

Total net patient service revenue increased from \$41,289,000 in 2013 to \$44,672,000 in 2014. This was a \$3,383,000, or 8%, increase between years.

Gross patient revenue increased \$7,240,000, or 12% from prior year primarily due to increased outpatient volume. Contractual adjustments as a percent of gross patient service revenue increased from 37% in 2013 to 39% in 2014.

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

## Buena Vista Regional Medical Center

### Management's Discussion and Analysis

**Table 6: Contractual Adjustments Summary**

	Year Ended June 30			Dollar Change	Percent Change
	2014	2013	2012		
Medicare	\$ 14,214,000	10,459,000	11,702,000	3,755,000	35.9%
Medicaid	2,638,000	1,531,000	1,476,000	1,107,000	72.3%
Wellmark and other commercial	9,270,000	9,479,000	9,490,000	(209,000)	-2.2%
Charity care	973,000	1,038,000	816,000	(65,000)	0.0%
Total	\$ 27,095,000	22,507,000	23,484,000	4,588,000	20.4%

### Capital Assets

During fiscal year 2014, BVRMC invested \$781,000 in a broad range of capital assets included in Table 7 below.

**Table 7: Capital Assets**

		2014	2013	2012	Dollar Change	Percent Change
Land and land improvements	\$	2,305,000	2,280,000	2,355,000	25,000	1%
Buildings and fixed equipment		34,041,000	33,855,000	35,041,000	186,000	1%
Major movable equipment		16,470,000	14,563,000	16,591,000	1,907,000	13%
Subtotal		52,816,000	50,698,000	53,987,000	2,118,000	4%
Less: Accumulated depreciation		32,197,000	29,134,000	29,537,000	3,063,000	11%
Net capital assets	\$	20,619,000	21,564,000	24,450,000	(945,000)	-4%
Construction in progress	\$	2,366,000	219,000	177,000	2,147,000	980%

BVRMC continues to enhance its existing facilities and upgraded surgery, radiology, plant, ambulance, and computer equipment. The increase in construction in progress is due to the start of a master facility plan as discussed in Note 5.

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

BVRMC had \$4,687,000 and \$4,733,000 in short-term and long-term debt as of June 30, 2014 and 2013, respectively. During 2014, BVRMC entered into a \$470,000 capital lease for equipment. More detailed information about BVRMC's long-term liabilities is presented in the notes to the basic financial statements.

### 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, 2014 and 2013

<b>ASSETS</b>	<b>2014</b>	<b>2013 Restated</b>
Current assets:		
Cash and cash equivalents	\$ 5,963,304	6,413,725
Investments	5,518,091	4,497,980
Receivables -		
Patient, net of allowance for doubtful accounts of \$2,148,000 in 2014 and \$1,946,000 in 2013	7,588,513	5,269,668
Other receivables	1,685,985	1,708,388
Succeeding year property taxes receivable	396,745	396,651
Inventories	1,372,940	1,171,176
Prepaid expenses	457,520	388,953
Investments limited as to use or restricted	659,888	270,242
Estimated third-party payor settlements	--	153,819
Total current assets	<u>23,642,986</u>	<u>20,270,602</u>
Investments limited as to use or restricted:		
Internally designated assets	19,703,112	20,503,072
Bond restricted funds	400,000	400,000
Donor restricted funds	114,259	105,028
	<u>20,217,371</u>	<u>21,008,100</u>
Less amount required to meet current obligations	<u>659,888</u>	<u>270,242</u>
Total investments limited as to use or restricted, net of current portion	<u>19,557,483</u>	<u>20,737,858</u>
Capital assets, net	<u>22,984,857</u>	<u>21,782,716</u>
Total assets	<u>66,185,326</u>	<u>62,791,176</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	547,196	455,610
Accounts payable	1,332,624	1,167,301
Accrued salaries and vacation	1,812,908	1,739,118
Accrued health insurance	242,000	242,000
Payroll taxes withheld and other accrued expenses	387,394	279,829
Estimated third-party payor settlements	1,411,987	--
Total current liabilities	5,734,109	3,883,858
Long term debt, net of current portion	<u>4,139,348</u>	<u>4,276,954</u>
Total liabilities	<u>9,873,457</u>	<u>8,160,812</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable property tax revenue	<u>396,745</u>	<u>396,653</u>
Commitments and contingencies		
<b>NET POSITION</b>		
Net investment in capital assets	18,298,313	17,050,152
Restricted - expendable	114,259	105,028
Unrestricted	<u>37,502,552</u>	<u>37,078,531</u>
Total net position	<u>\$ 55,915,124</u>	<u>54,233,711</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, 2014 and 2013

	<u>2014</u>	<u>2013 Restated</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 41,649,702	38,998,620
Provision for bad debt	(1,054,338)	(1,226,003)
Net patient service revenue	40,595,364	37,772,617
Other operating revenue	4,076,660	3,516,869
Total operating revenue	<u>44,672,024</u>	<u>41,289,486</u>
OPERATING EXPENSES:		
Salaries and wages	17,513,163	16,700,955
Employee benefits	4,953,236	4,622,929
Purchased services and professional fees	3,635,514	3,097,144
Supplies	9,715,698	8,648,966
Other expenses	4,169,553	3,888,093
Depreciation and amortization	3,408,009	3,599,251
Interest	218,804	223,174
Total operating expenses	<u>43,613,977</u>	<u>40,780,512</u>
OPERATING INCOME	<u>1,058,047</u>	<u>508,974</u>
NONOPERATING REVENUE:		
County tax revenue	412,818	390,392
Investment income	127,998	100,281
Nonoperating revenue	<u>540,816</u>	<u>490,673</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	1,598,863	999,647
CAPITAL GRANTS AND CONTRIBUTIONS	<u>82,550</u>	<u>44,798</u>
INCREASE IN NET POSITION	<u>1,681,413</u>	<u>1,044,445</u>
NET POSITION, beginning of year, as previously reported	54,233,711	53,245,217
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NOTE 16)	--	(55,951)
NET POSITION, beginning of year, as restated	<u>54,233,711</u>	<u>53,189,266</u>
NET POSITION, end of year	<u>\$ 55,915,124</u>	<u>54,233,711</u>

See notes to financial statements

# Buena Vista Regional Medical Center

## Statements of Cash Flows For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>Restated</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient services and third party payors	\$ 39,842,325	38,797,993
Cash paid for employee salaries and benefits	(22,285,044)	(21,485,047)
Cash paid to suppliers and contractors	(18,009,073)	(15,303,100)
Other receipts and payments, net	4,110,148	2,403,732
	<u>3,658,356</u>	<u>4,413,578</u>
Net cash provided by operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES,		
County tax receipts	412,816	390,392
	<u>412,816</u>	<u>390,392</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments on capital lease obligations	(316,616)	(249,417)
Payments on long-term debt	(200,000)	(195,000)
Interest payments	(218,804)	(223,848)
Capital grants and contributions	82,550	44,798
Proceeds from sale of property and equipment	4,350	1,683
Purchase of property and equipment	(3,771,689)	(966,757)
	<u>(4,420,209)</u>	<u>(1,588,541)</u>
Net cash used in capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	127,998	100,281
Deposits to investments, net	(1,020,111)	(1,513,390)
Change in investments limited as to use or restricted, net	790,729	(836,691)
	<u>(101,384)</u>	<u>(2,249,800)</u>
Net cash used in investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(450,421)	965,629
CASH AND CASH EQUIVALENTS - Beginning of year	6,413,725	5,448,096
CASH AND CASH EQUIVALENTS - End of year	\$ <u>5,963,304</u>	<u>6,413,725</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital assets acquired under capital lease obligation	\$ <u>470,596</u>	<u>--</u>

*See notes to financial statements*

## Buena Vista Regional Medical Center

### Statements of Cash Flows (Continued) For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>Restated</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,058,047	508,974
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	3,408,009	3,599,251
Loss on sale of capital assets	11,085	90,458
Interest expense included in operating expenses	218,804	223,174
(Increase) decrease in current assets -		
Receivables -		
Patients	(2,318,845)	770,548
Other	22,403	(1,203,595)
Inventories	(201,764)	(122,485)
Prepaid expenses	(68,567)	(13,295)
Estimated third-party payor settlements	153,819	254,828
Increase (decrease) in current liabilities -		
Accounts payable	(217,977)	466,883
Accrued salaries, vacation, health insurance, payroll taxes withheld and other	181,355	(161,163)
Estimated third-party payor settlements	1,411,987	--
Net cash provided by operating activities	<u>\$ 3,658,356</u>	<u>4,413,578</u>

*See notes to financial statements*

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2014 and 2013

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

The following is a description of the reporting entity and a summary of significant accounting policies of Buena Vista Regional Medical Center (Medical Center). These policies are in accordance with accounting principles generally accepted in the United States of America. 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, deferred outflows, liabilities, deferred inflows, 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 health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care 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, deferred outflows, liabilities, and deferred inflows 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, 2014 and 2013

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Restricted - Expendable – 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 revenues 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 Medical Center's basic financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned, expenses are recognized when 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, deferred outflow, liabilities, and deferred inflows 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, 2014 and 2013

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### I. *Deferred Inflows of Resources*

Deferred inflows of resources consist of succeeding year property taxes receivable which will not be recognized as revenue until the year for which it is levied. It 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 taxes receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal 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 taxes 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, 2014 and 2013

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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. 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, 2014 and 2013, respectively.

*N. Self-Insured Employee Health Benefits*

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

*O. 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.

*P. 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.

*Q. 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 \$973,041 and \$1,038,083, for 2014 and 2013, respectively.

*R. 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.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2014 and 2013

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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.

*S. Statements of Revenues, Expenses and Changes in Net Position*

For the purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as nonoperating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

*T. Excess of Revenue Over Expenses Before Capital Grants and Contributions*

The statements of revenue, expenses and changes in net position include excess of revenue over expenses before capital grants and contributions as a performance indicator. Changes in unrestricted net position that are excluded from excess of revenue over expenses before capital grants and contributions, 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.)

*U. 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.

*V. Change in Accounting Principle*

During 2014, the Medical Center adopted the provisions of GASB Statement No. 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statement of net position. GASB 65 also requires recognition of certain items previously reported as assets and liabilities as outflows of resources or inflows of resources on the statement of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of \$55,951 in net position as of the beginning of 2013 (see Note 16).

*W. Reclassifications*

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 reporting format.

*X. Subsequent Events*

The Medical Center considered events occurring through September 26, 2014 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, 2014 and 2013

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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, 2014 and 2013 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, 2014 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, 2014 and 2013

The composition of investments and investments limited as to use or restricted as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Investments (operating reserves):		
Cash and cash equivalents	\$ 9,614	4,476
Certificates of deposit	5,502,033	3,987,073
Corporate bonds	--	503,000
Interest receivable	6,444	3,431
Total investments	<u>\$ 5,518,091</u>	<u>4,497,980</u>
Investments Limited as to Use or Restricted:		
By Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 7,531,273	8,360,780
Certificates of deposit	12,148,132	12,115,653
U.S. government agencies	--	10,992
Interest receivable	23,707	15,647
	19,703,112	20,503,072
By Hospital Revenue Bond Agreement:		
Cash and cash equivalents	400,000	400,000
By Donor:		
Cash and cash equivalents	114,259	105,028
Total investments limited as to use or restricted	20,217,371	21,008,100
Less amounts required to meet current obligations	659,888	270,242
Long-term portion	<u>\$ 19,557,483</u>	<u>20,737,858</u>

Investment return, including return on investments limited as to use or restricted, for the years ended June 30, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 127,188	101,188
Change in unrealized gains (loss), net	810	(907)
Total investment return	<u>\$ 127,998</u>	<u>100,281</u>

### (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.

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2014 and 2013

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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. 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.

**Commercial** - 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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue:		
Medical Center -		
Inpatient	\$ 12,592,978	11,676,931
Outpatient	50,620,150	44,101,019
Swingbed	1,018,801	799,147
Behavioral health	4,336,587	4,431,428
Hospice	176,288	496,765
	<u>68,744,804</u>	<u>61,505,290</u>
Total gross patient service revenue		
Contractual adjustments:		
Medicare	14,213,892	10,458,656
Medicaid	2,638,131	1,530,506
Other	9,270,038	9,479,425
Charity care services	973,041	1,038,083
	<u>27,095,102</u>	<u>22,506,670</u>
Total contractual adjustments		
Net patient service revenue before provision for bad debt	\$ <u>41,649,702</u>	<u>38,998,620</u>

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% and 10%, respectively, of the Medical Center's gross patient service revenue for the year ended June 30, 2014, and 45% and 9%, respectively, for the year ended June 30, 2013. 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 2014 net patient service revenue decreased approximately \$855,000, due to the establishment of estimated allowances necessary as a result of re-openings of years previously determined to be no longer subject to audits, reviews, and investigations.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2014 and 2013

### (4) Composition of Patient Receivables

Patient receivables as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Patient receivables	\$ 14,861,013	10,151,168
Less estimated third-party contractual adjustments	(5,124,500)	(2,935,500)
Less allowance for doubtful accounts	<u>(2,148,000)</u>	<u>(1,946,000)</u>
	<u>\$ 7,588,513</u>	<u>5,269,668</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>2014</u>	<u>2013</u>
Medicare	37%	41%
Medicaid	11	5
Commercial insurance	40	38
Patients and residents	<u>12</u>	<u>16</u>
	<u>100%</u>	<u>100%</u>

### (5) Capital Assets

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

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated,				
Land	\$ 627,698	--	--	627,698
Construction in progress	218,783	3,710,222	(1,563,467)	2,365,538
Total capital assets not being depreciated	<u>846,481</u>	<u>3,710,222</u>	<u>(1,563,467)</u>	<u>2,993,236</u>
Capital assets, being depreciated:				
Land improvements	1,652,329	24,591	--	1,676,920
Buildings	31,638,666	118,381	(364,656)	31,392,391
Fixed equipment	2,216,926	478,082	(46,236)	2,648,772
Major movable equipment	14,562,684	548,908	1,358,773	16,470,365
Total capital assets, being depreciated	<u>50,070,605</u>	<u>1,169,962</u>	<u>947,881</u>	<u>52,188,448</u>
Less accumulated depreciation:				
Land improvements	(773,146)	(62,861)	--	(836,007)
Buildings	(16,768,265)	(1,282,394)	115,996	(17,934,663)
Fixed equipment	(1,466,865)	(224,707)	36,619	(1,654,953)
Major movable equipment	<u>(10,126,094)</u>	<u>(1,838,047)</u>	<u>192,937</u>	<u>(11,771,204)</u>
Total accumulated depreciation	<u>(29,134,370)</u>	<u>(3,408,009)</u>	<u>345,552</u>	<u>(32,196,827)</u>
Total capital assets, being depreciated, net	<u>20,936,235</u>	<u>(2,238,047)</u>	<u>1,293,433</u>	<u>19,991,621</u>
Total capital assets, net	<u>\$ 21,782,716</u>	<u>1,472,175</u>	<u>(270,034)</u>	<u>22,984,857</u>

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2014 and 2013

	June 30, 2012	Additions	Transfers and Disposals	June 30, 2013
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>

Total depreciation for the year ended June 30, 2014 and 2013, including depreciation on rental property owned by the Medical Center, was \$3,408,009 and \$3,599,251 respectively.

Construction in progress as of June 30, 2014 consisted of costs related to architect fees related to a Master Facility expansion/remodel project and various other minor projects. The projected budget for the building and remodeling of the Campus Development Plan is \$26 million and will be completed in several phases over the next two years. The project will be funded with proceeds from the issuance Hospital Revenue Bonds and Medical Center reserves.

#### (6) Long-Term Debt

Long-term debt activity of the Medical Center as of June 30, 2014 and 2013 consisted of the following:

	June 30, 2013	Borrowings	Payments	June 30, 2014	Due Within One Year
Series 2007 hospital revenue bonds (A)	\$ 4,215,000	--	(200,000)	4,015,000	210,000
Capital lease obligation (B)	517,564	--	(255,610)	261,954	261,954
Capital lease obligation (C)	--	470,596	(61,006)	409,590	75,242
	<u>\$ 4,732,564</u>	<u>470,596</u>	<u>(516,616)</u>	<u>4,686,544</u>	<u>547,196</u>
	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>

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2014 and 2013

- (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 4.45% to 5.00% payable semi-annually. Annual principal payments are due in amounts ranging from \$210,000 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 with a cost of \$605,616.
- (C) Capital lease obligation at 2.49% interest payable in monthly installments of \$7,045 through August 2019, collateralized by leased equipment with a cost of \$470,596.

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

	Long-Term Debt Principal	Capital Lease Principal	Interest
2015	\$ 210,000	337,196	203,568
2016	220,000	77,068	187,543
2017	230,000	79,016	176,084
2018	240,000	81,013	163,275
2019	250,000	83,061	149,709
2020-2024	1,120,000	14,190	564,163
2025-2028	1,745,000	--	205,375
	<u>\$ 4,015,000</u>	<u>671,544</u>	<u>1,649,717</u>

#### (7) Other Operating Revenue

Other operating revenue for the years ended June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
340B revenue	\$ 1,707,709	1,527,142
Electronic health record incentive payment	602,393	350,928
Cafeteria	427,320	416,711
Rental income	327,251	366,600
School nurse	261,530	254,969
Fitness center	228,361	223,359
Contracted revenue	162,630	125,430
Grants	108,277	115,566
Miscellaneous	131,132	95,484
Lifeline	69,471	74,586
Purchasing rebates	34,998	31,967
Coffee shop	25,086	22,862
Vending machines	1,587	1,723
Loss on sale of capital assets	(11,085)	(90,458)
	<u>\$ 4,076,660</u>	<u>3,516,869</u>

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2014 and 2013

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012, Medical Center qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2016. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

The Medical Center has elected to record a portion of the incentive payment as other operating revenue in the period earned, and defer amounts related to future Medicare reimbursement. Amounts recorded are as follows:

	<u>2014</u>	<u>2013</u>
Medicare Electronic health record incentive payments	\$ 335,610	350,928
Medicaid Electronic health record incentive payments	<u>266,783</u>	<u>--</u>
Total electronic health record incentive payments	<u>\$ 602,393</u>	<u>350,928</u>
Medicare reimbursement receivable	\$ 966,070	--
Deferred Medicare reimbursement	<u>\$ 555,276</u>	<u>116,000</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 5.95% and 5.78% of their annual covered salary and the Medical Center is required to contribute 8.93% and 8.67% of annual covered salary for 2014 and 2013, respectively. Contribution requirements are established by State statute. The Medical Center's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$1,524,435, \$1,432,504, and \$1,330,949 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.

The following is a list of year end balances and transactions between the Medical Center and these affiliates for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fees to affiliate for personnel and services	\$ <u>468,936</u>	<u>455,976</u>

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2014 and 2013

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### (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, 2014.

### (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, 2014 and 2013 follows:

	<u>(Unaudited)</u>	
	<u>2014</u>	<u>2013</u>
Assets	\$ 3,613,034	3,324,041
Net position	\$ 3,594,564	3,314,242

The Medical Center received \$99,727 and \$44,798 from the Foundation during the year ended June 30, 2014 and 2013, respectively, for the purchase of property and equipment. As of June 30, 2014, the Foundation has no pledges receivable related to Medical Center projects.

### (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, 2014 and 2013, the Medical Center has accumulated funds in excess of actual claims paid of \$582,721 and \$582,778, 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, 2014 and 2013 was \$242,000.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2014 and 2013

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### (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) Significant 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.

### (16) Change in Accounting Principle

In accordance with GASB Statement No. 65, which was adopted effective July 1, 2012, the Medical Center restated the ending net position at June 30, 2012 and depreciation expense for the year ended June 30, 2013, in connection with unamortized bond issuance costs. According to GASB 65, debt issuance costs are recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized.

<u>Description</u>	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Balance</u>
Deferred financing costs, net	\$ 52,302	(52,302)	--
Depreciation and amortization expense	3,602,900	(3,649)	3,599,251
Increase in net position	1,040,796	3,649	1,044,445
Net position, June 30, 2012	53,245,217	(55,951)	53,189,266

### (17) Subsequent Events

The Medical Center plans to issue Hospital Revenue Bonds in various transactions subsequent to year end totaling \$21.22 million. \$9.0 million will be issued on October 21, 2014 (Series 2014). On January 15, 2015 an additional \$9.0 million will be issued (Series 2015A) and on December 15, 2015, the Series 2015B will be issued for \$3.22 million.

## 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, 2014

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#### 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, 2014, the Medical Center's expenditures did not exceed the amount budgeted.

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 412,818	(2)	412,816	396,650	16,166
Estimated other revenues	44,882,572	(715,201)	44,167,371	40,520,350	3,647,021
Expenses / disbursements	<u>43,613,977</u>	<u>1,187,249</u>	<u>44,801,226</u>	<u>57,606,577</u>	<u>12,805,351</u>
Net	1,681,413	(1,902,450)	(221,039)	(16,689,577)	\$ <u><u>16,468,538</u></u>
Balance, beginning of year	<u>54,233,711</u>	<u>(22,313,906)</u>	<u>31,919,805</u>	<u>31,919,805</u>	
Balance, end of year	<u>\$ 55,915,124</u>	<u>(24,216,356)</u>	<u>31,698,766</u>	<u>15,230,228</u>	

*See accompanying independent auditor's report*

**Patient Service Revenue  
For the Years Ended June 30, 2014 and 2013**

	2014						2013					
	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total
<b>DAILY PATIENT SERVICES:</b>												
Behavioral health	--	301,667	--	3,433,197	--	3,734,864	--	320,149	--	3,530,860	--	3,851,009
Medical and surgical	\$ 1,264,097	398,853	--	--	37,750	1,700,700	1,288,461	479,003	--	--	41,444	1,808,908
Obstetric	1,578,417	--	--	--	--	1,578,417	1,591,148	--	--	--	--	1,591,148
Coronary care	347,820	--	--	--	--	347,820	344,310	--	--	--	--	344,310
Swing bed	--	--	225,598	--	--	225,598	--	--	178,104	--	--	178,104
Hospice	--	--	--	--	--	--	--	--	--	--	23,742	23,742
	<u>3,190,334</u>	<u>700,520</u>	<u>225,598</u>	<u>3,433,197</u>	<u>37,750</u>	<u>7,587,399</u>	<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>
<b>OTHER NURSING SERVICES:</b>												
Operating and recovery room	2,297,746	7,178,092	462	--	--	9,476,300	1,910,944	6,391,249	8,644	--	--	8,310,837
Medical and surgical supplies	2,377,953	1,713,138	16,887	--	2,234	4,110,212	1,893,473	1,253,738	7,862	--	702	3,155,775
Outpatient service	100,611	3,244,379	11,144	8,299	399	3,364,832	62,279	2,633,446	10,538	8,182	351	2,714,796
Emergency services	6,491	2,700,243	--	--	--	2,706,734	--	2,583,872	--	--	--	2,583,872
Delivery and labor room	--	276,978	--	--	--	276,978	--	259,474	--	--	--	259,474
Cardiac rehabilitation	--	133,041	--	--	--	133,041	--	176,122	--	--	--	176,122
Maternal child care	--	4,598	--	--	--	4,598	--	7,069	--	--	--	7,069
Homecare	--	--	--	--	--	--	--	1,604	--	--	--	1,604
	<u>4,782,801</u>	<u>15,250,469</u>	<u>28,493</u>	<u>8,299</u>	<u>2,633</u>	<u>20,072,695</u>	<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>
<b>OTHER PROFESSIONAL SERVICES:</b>												
Pharmacy	1,685,414	13,721,000	332,942	537,437	130,647	16,407,440	1,550,568	10,711,321	214,602	554,159	416,258	13,446,908
Laboratory	635,291	3,164,944	44,915	218,997	440	4,064,587	707,850	3,100,774	39,483	223,277	2,690	4,074,074
Radiology	86,521	4,239,935	7,848	8,393	--	4,342,697	104,456	3,779,615	6,673	12,621	596	3,903,961
Respiratory therapy	1,248,210	534,559	240,201	69,388	4,338	2,096,696	1,242,430	508,610	204,264	64,280	6,277	2,025,861
CT scans	180,178	2,287,072	12,445	1,543	--	2,481,238	201,416	1,682,030	6,773	4,201	--	1,894,420
Nuclear medicine	60,065	1,912,197	4,006	--	--	1,976,268	50,449	1,748,349	--	1,339	--	1,800,137
ER physicians	2,277	1,593,128	--	--	--	1,595,405	--	1,603,424	--	--	--	1,603,424
Oncology	2,334	1,545,170	--	--	--	1,547,504	349	1,425,270	--	--	--	1,425,619
Physical therapy	133,191	1,155,072	60,322	18,656	161	1,367,402	126,769	1,174,723	63,344	15,034	1,240	1,381,110
Ultrasound	89,961	1,096,054	6,517	--	--	1,192,532	123,040	1,046,514	1,322	1,193	1,284	1,173,353
Ambulance	142,856	1,028,874	3,025	6,837	319	1,181,911	140,223	926,046	8,106	4,047	395	1,078,817
Anesthesiology	130,628	776,958	--	--	--	907,586	111,164	645,974	103	--	--	757,241
Occupational therapy	81,647	389,186	41,940	5,190	--	517,963	71,791	451,147	40,904	738	--	564,580
Electrocardiology	52,447	435,387	1,746	23,839	--	513,419	65,461	443,860	1,829	8,745	--	519,895
Electroencephalography	--	631,858	--	--	--	631,858	--	516,385	--	--	--	516,385
Blood administration	84,598	91,680	5,710	1,112	--	183,100	84,453	151,421	4,327	--	1,786	241,987
Diabetic education	--	51,208	--	--	--	51,208	--	46,190	--	--	--	46,190
Speech therapy	4,225	11,922	3,093	3,699	--	22,939	5,897	30,417	2,269	2,752	--	41,335
Dietary	--	2,357	--	--	--	2,357	--	2,254	--	--	--	2,254
Infection control	--	600	--	--	--	600	--	943	--	--	--	943
Cardiopulmonary	--	--	--	--	--	--	--	26	--	--	--	26
	<u>4,619,843</u>	<u>34,669,161</u>	<u>764,710</u>	<u>895,091</u>	<u>135,905</u>	<u>41,084,710</u>	<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>
Gross patient service revenue	\$ 12,592,978	50,620,150	1,018,801	4,336,587	176,288	68,744,804	11,676,931	44,101,019	799,147	4,431,428	496,765	61,505,290
<b>LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE</b>												
Contractual allowances and other deductions, primarily Medicare and Medicaid						(26,122,061)						(21,468,587)
Charity care services and other discounts, based on charges forgone						(973,041)						(1,038,083)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>						41,649,702						38,998,620
Provision for bad debt						(1,054,338)						(1,226,003)
<b>NET PATIENT SERVICE REVENUE</b>						\$ 40,595,364						37,772,617

See accompanying independent auditor's report

**Other Operating Revenue  
For the Years Ended June 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
340B revenue	\$ 1,707,709	1,527,142
Electronic health record incentive payment	602,393	350,928
Cafeteria	427,320	416,711
Rental income	327,251	366,600
School nurse	261,530	254,969
Fitness center	228,361	223,359
Contracted revenue	162,630	125,430
Grants	108,277	115,566
Miscellaneous	131,132	95,484
Lifeline	69,471	74,586
Purchasing rebates	34,998	31,967
Coffee shop	25,086	22,862
Vending machines	1,587	1,723
Loss on sale of capital assets	(11,085)	(90,458)
	<u>\$ 4,076,660</u>	<u>3,516,869</u>

*See accompanying independent auditor's report*

Departmental Expenses  
For the Years Ended June 30, 2014 and 2013

	2014				2013 Restated			
	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	\$ 1,791,823	100,008	629,276	2,521,107	1,676,652	100,008	569,654	2,346,314
Operating and recovery room	669,051	144,250	1,373,263	2,186,564	647,495	173,775	1,264,673	2,085,943
Emergency services	1,307,444	600	484,787	1,792,831	1,117,794	150	435,820	1,553,764
Obstetric	1,095,674	--	459,857	1,555,531	1,073,735	--	456,681	1,530,416
Behavioral health	1,072,040	42,559	410,156	1,524,755	996,537	36,772	373,369	1,406,678
Outpatient services	845,859	--	593,333	1,439,192	751,054	--	513,517	1,264,571
Medical and surgical supplies	63,812	--	1,367,216	1,431,028	59,463	--	1,079,298	1,138,761
Coronary care	480,407	--	164,153	644,560	480,046	--	159,462	639,508
School	200,835	--	58,828	259,663	197,142	--	57,845	254,987
Cardiac rehabilitation	157,654	--	57,625	215,279	161,408	--	51,866	213,274
Nursing administration	144,556	--	44,768	189,324	123,544	--	38,668	162,212
Lifeline	2,370	--	55,755	58,125	2,236	--	60,502	62,738
Homecare	--	--	3,414	3,414	(23,301)	--	26,307	3,006
Hospice	--	--	--	--	--	--	(91)	(91)
	<u>7,831,525</u>	<u>287,417</u>	<u>5,702,431</u>	<u>13,821,373</u>	<u>7,263,805</u>	<u>310,705</u>	<u>5,087,571</u>	<u>12,662,081</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Pharmacy	499,667	--	4,829,256	5,328,923	478,311	--	3,999,192	4,477,503
Radiology	955,895	934,697	597,815	2,488,407	900,070	855,605	629,782	2,385,457
Laboratory	689,342	295,683	741,337	1,726,362	671,474	346,868	677,131	1,695,473
ER physicians	--	1,138,544	14,196	1,152,740	--	1,103,954	14,387	1,118,341
Physical therapy	635,344	--	232,850	868,194	654,005	9	252,667	906,681
Medical records	439,940	--	277,701	717,641	416,723	--	302,455	719,178
Oncology	447,861	--	196,068	643,929	413,575	--	175,715	589,290
Respiratory therapy	228,964	--	184,431	413,395	240,328	--	187,411	427,739
Fitness center	254,594	--	126,208	380,802	224,725	--	114,040	338,765
Occupational therapy	237,934	--	72,374	310,308	257,868	(12,507)	88,644	334,005
Ambulance	137,959	2,700	143,892	284,551	164,097	300	134,995	299,392
Nuclear medicine	--	16,348	180,092	196,440	--	35,918	225,495	261,413
Infection control	153,929	--	61,159	215,088	155,147	--	61,670	216,817
Women's center	161,287	--	56,440	217,727	147,269	--	64,332	211,601
Electroencephalography	111,264	--	82,066	193,330	111,568	--	78,308	189,876
Blood administration	--	--	124,175	124,175	--	--	163,821	163,821
Electrocardiology	79,071	17,637	46,208	142,916	62,311	23,127	38,853	124,291
Diabetic education	95,922	--	38,135	134,057	88,215	--	35,156	123,371
CT scans	--	--	133,604	133,604	--	--	92,002	92,002
Specialty clinics	54,991	--	48,235	103,226	54,623	--	37,222	91,845
Anesthesiology	--	37,680	64,033	101,713	--	37,305	45,490	82,795
Ultrasound	--	2,479	39,447	41,926	--	833	24,948	25,781
Speech therapy	1,164	12,313	317	13,794	638	19,048	213	19,899
	<u>5,185,128</u>	<u>2,458,081</u>	<u>8,290,039</u>	<u>15,933,248</u>	<u>5,040,947</u>	<u>2,410,460</u>	<u>7,443,929</u>	<u>14,895,336</u>
<b>GENERAL SERVICES:</b>								
Plant	425,260	--	962,565	1,387,825	418,885	--	905,081	1,323,966
Dietary	540,969	--	654,625	1,195,594	576,594	--	673,661	1,250,255
Housekeeping	478,766	--	205,509	684,275	468,305	--	199,501	667,806
Laundry and linen	--	--	121,153	121,153	--	--	119,122	119,122
	<u>1,444,995</u>	<u>--</u>	<u>1,943,852</u>	<u>3,388,847</u>	<u>1,463,784</u>	<u>--</u>	<u>1,897,365</u>	<u>3,361,149</u>
<b>ADMINISTRATIVE SERVICES:</b>	<u>3,051,515</u>	<u>890,016</u>	<u>2,676,046</u>	<u>6,617,577</u>	<u>2,932,419</u>	<u>375,979</u>	<u>2,512,092</u>	<u>5,820,490</u>
<b>NONDEPARTMENTAL:</b>								
Depreciation and amortization	--	--	3,408,009	3,408,009	--	--	3,599,251	3,599,251
Interest	--	--	218,804	218,804	--	--	223,174	223,174
Insurance	--	--	226,119	226,119	--	--	219,031	219,031
	<u>--</u>	<u>--</u>	<u>3,852,932</u>	<u>3,852,932</u>	<u>--</u>	<u>--</u>	<u>4,041,456</u>	<u>4,041,456</u>
<b>TOTAL EXPENSES</b>	<u>\$ 17,513,163</u>	<u>3,635,514</u>	<u>22,465,300</u>	<u>43,613,977</u>	<u>16,700,955</u>	<u>3,097,144</u>	<u>20,982,413</u>	<u>40,780,512</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2014 and 2013**

ANALYSIS OF AGING:

Days Since Discharge	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0 - 60	\$ 9,978,324	67.15 %	7,581,861	74.69 %
61 - 120	3,243,358	21.82	1,356,010	13.36
121 - 180	503,333	3.39	598,839	5.90
181 - and over	<u>1,135,998</u>	<u>7.64</u>	<u>614,458</u>	<u>6.05</u>
	14,861,013	100.00 %	10,151,168	100.00 %
Less:				
Allowance for doubtful accounts	(2,148,000)		(1,946,000)	
Allowance for contractual adjustments	<u>(5,124,500)</u>		<u>(2,935,500)</u>	
	<u>\$ 7,588,513</u>		<u>5,269,668</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ 1,946,000		1,849,000	
Provision of uncollectible accounts	1,054,338		1,226,003	
Recoveries of accounts previously written off	441,662		397,601	
Accounts written off	<u>(1,294,000)</u>		<u>(1,526,604)</u>	
Balance, end of year	<u>\$ 2,148,000</u>		<u>1,946,000</u>	

*See accompanying independent auditor's report*

**Inventory / Prepaid Expenses  
For the Years Ended June 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
INVENTORY:		
Surgery	\$ 707,709	485,354
Pharmacy	456,140	449,134
Central service	<u>209,091</u>	<u>236,688</u>
	<u>\$ 1,372,940</u>	<u>1,171,176</u>
PREPAID EXPENSES:		
Service contracts	\$ 123,731	154,421
Dues	87,885	97,753
Other	202,151	96,473
Insurance	<u>43,753</u>	<u>40,306</u>
	<u>\$ 457,520</u>	<u>388,953</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights  
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Patient days:		
Hospital -		
Adult and pediatric	2,998	3,002
Newborn	802	767
Swing bed - skilled	659	566
Hope Harbor	<u>3,185</u>	<u>3,343</u>
	<u>7,644</u>	<u>7,678</u>
Discharges:		
Hospital adult and pediatric	<u>1,003</u>	<u>1,027</u>
Average length of stay:		
Hospital adult and pediatric	2.99	2.92
Observation visits	423	499
Surgical procedures	3,193	2,847
Emergency room visits	7,469	7,852
Full-time equivalents personnel	339	335

*See accompanying independent auditor's report*

**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, 2014, 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 26, 2014.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Medical 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 entity'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.

#### **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*.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

**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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

SEIM JOHNSON, LLP

Omaha, Nebraska,  
September 26, 2014.

# Buena Vista Regional Medical Center

## Schedule of Findings and Responses June 30, 2014

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

- a. An unmodified opinion was issued on the financial statements.
- b. No significant deficiencies or material weaknesses in internal control over financial reporting were identified 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

No matters were reported.

#### Instances of Non-Compliance

No matters were reported.

### Part III: Other Findings Related to Required Statutory Reporting

#### III-A-14

Certified Budget: Medical Center disbursements during the year ended June 30, 2014, did not exceed budgeted amounts.

#### III-B-14

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:

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
Various vendors	Employee recognition banquet	\$16,555

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-C-14

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

## Buena Vista Regional Medical Center

### Schedule of Findings and Responses June 30, 2014

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#### III-D-14

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-E-14

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

#### III-F-14

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-G-14

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, 2014**

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<b>Finding</b>	<b>Status</b>	<b>Corrective Action Plan or Other Explanation</b>
II-A-13	Allowance estimation and review process	Finding cleared

## **Buena Vista Regional Medical Center**

### **Audit Staff**

**For the Year Ended June 30, 2014**

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

- Brian D. Green, FHFMA, CPA, Partner
- Jeremy J. Behrens, FHFMA, CPA, Senior Manager
- Blake L. Berke, CPA, Staff Auditor