

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska
Omaha, Nebraska

Financial Statements
June 30, 2012 and 2011

Together with Independent Auditor's Report

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska

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Independent Auditor's Report

To the Board of Trustees
Douglas County Health Center
Omaha, Nebraska:

We have audited the accompanying financial statements of Douglas County Health Center (Health Center), a Proprietary Fund of Douglas County, Nebraska, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements present only the Health Center, a Proprietary Fund of Douglas County, Nebraska, and do not purport to, and do not, present fairly the financial position of Douglas County, Nebraska, and changes in financial position or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Douglas County Health Center, a Proprietary Fund of Douglas County, Nebraska, as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012, on our consideration of the Health 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 2 through 5 and Schedules of Funding Progress and Employer Contributions – Douglas County Employees' Retirement Plan and Douglas County Postemployment Plan on pages 24 and 25, respectively, 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.

Seim Johnson, LLP

Omaha, Nebraska,
December 31, 2012.

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska

Management's Discussion and Analysis
June 30, 2012, 2011 and 2010

This narrative overview and analysis of the financial performance of Douglas County Health Center (Health Center) provides an overview of the Health Center's activities for the fiscal years ended June 30, 2012, 2011 and 2010. The intent of this discussion and analysis is to look at the Health Center's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the Health Center's financial statements.

FINANCIAL HIGHLIGHTS

- Net position increased by \$176,035, from 2011 to 2012, and decreased \$2,233,163 from 2010 to 2011. The increase to 2012 is due to increased property and real estate tax revenue. The decrease to 2011 is primarily due to increased operating expenses.
- Operating revenue decreased \$283,632 to \$28,772,111 in 2012, as compared to \$29,055,743 in 2011. Operating revenue in 2010 was \$30,218,290. The change in 2012 relates primarily to an increase in patient volume offset by a change in patient mix. The decrease in 2011 relates to a decrease in pharmacy revenue.
- From 2011 to 2012, operating expenses decreased \$434,885 due to decreased pharmacy costs of approximately \$1,000,000 offset by an increase in benefits of \$420,000 and additional salary accruals for union contract settlements. From 2010 to 2011, operating expenses decreased by \$1,650,497, due to approximate decreases in salaries of \$400,000 and drugs of \$1,000,000.
- This combination of decreased revenue and decreased expenses resulted in a 2012 operating loss of \$12,893,449 which is \$151,253 less of a loss than 2011. In 2010, the operating loss was \$13,493,978.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Health Center's basic financial statements. The financial statements consist of: 1) Statements of Net Position; Statements of Revenue, Expenses and Changes in Net Position and Statements of Cash Flows; 2) Notes to Financial Statements; and 3) Supplemental Information including the Schedule of Funding Progress and Employer Contributions, Douglas County Employee's Retirement Plan and Schedule of Funding Progress and Employer Contributions, Douglas County Postemployment Benefits.

The Health Center is considered a Proprietary Fund of Douglas County. The Health Center's annual report is the consolidation of several funds that make up the Health Center's financial condition as a whole. The funds include the Douglas County funds of Douglas County Health Center, the Hospital Special Purpose Fund (Gift Shop), Hospital Improvement Construction Fund and Bond Fund. The Health Center Patient Fund Trust Account is included in the balance sheets and is the subject of a separate financial statement.

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska

Management's Discussion and Analysis
June 30, 2012, 2011 and 2010

Statements of Net Position

The statement of net position presents assets and liabilities in order of their relative liquidity. The difference between assets and liabilities is called net position. Net position is further divided into net investment in capital assets, restricted for debt service and unrestricted. A comparison of the year ended June 30, 2012, 2011 and 2010 is:

Summary of Statements of Net Position

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS:			
Current	\$ 20,066,218	17,332,172	18,320,538
Non-current	15,123,830	16,541,479	17,706,700
	<u>\$ 35,190,048</u>	<u>33,873,651</u>	<u>36,027,238</u>
LIABILITIES:			
Current	\$ 10,573,281	8,880,432	8,522,036
Non-current	8,492,734	9,045,221	9,324,041
	<u>19,066,015</u>	<u>17,925,653</u>	<u>17,846,077</u>
NET POSITION:			
Net investment in capital assets	6,446,652	7,422,315	8,326,320
Restricted for debt service	-	2,193	2,379
Unrestricted	9,677,381	8,523,490	9,852,462
	<u>16,124,033</u>	<u>15,947,998</u>	<u>18,181,161</u>
	<u>\$ 35,190,048</u>	<u>33,873,651</u>	<u>36,027,238</u>

The largest portion of the Health Center's net position arises from patient receivables and capital assets. Patient receivables are made up of amounts owed by third-party payors, such as Medicare and Medicaid, as well as amounts due from individual patients. These receivables are for services already provided but not yet paid.

Douglas County Health Center
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Management's Discussion and Analysis
June 30, 2012, 2011 and 2010

Revenue, Expenses and Changes in Net Position

The following represents a summary of the Health Center's revenue and expenses and changes in net position for the years ended June 30, 2012, 2011 and 2010:

Summary Statement of Revenue, Expenses and Changes in Net Position

	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:			
Net patient service revenue	\$ 27,862,706	28,076,064	29,092,333
Other	909,405	979,679	1,125,957
Total operating revenue	<u>28,772,111</u>	<u>29,055,743</u>	<u>30,218,290</u>
OPERATING EXPENSES:			
Long-term care	9,974,012	9,399,528	9,764,592
General services	4,555,924	4,624,500	4,790,072
Ancillary services	6,723,849	8,511,696	9,528,428
Administration services	8,372,660	7,766,254	7,400,863
Assisted living	205,080	184,509	229,112
Dietary services	2,566,288	2,565,376	2,657,055
Psychiatric services	5,640,116	5,454,224	5,712,466
Medical administration	1,218,098	1,159,317	1,178,895
Fiscal services	1,085,735	1,113,841	1,168,259
Departmental expenses	<u>40,341,762</u>	<u>40,779,245</u>	<u>42,429,742</u>
Special Purpose Fund	52,502	35,621	23,595
Depreciation	<u>1,271,296</u>	<u>1,285,579</u>	<u>1,258,931</u>
Total operating expenses	<u>41,665,560</u>	<u>42,100,445</u>	<u>43,712,268</u>
Operating loss	(12,893,449)	(13,044,702)	(13,493,978)
NONOPERATING REVENUE	9,175,744	6,811,539	8,532,620
TRANSFERS IN	<u>3,997,238</u>	<u>4,000,000</u>	<u>4,395,000</u>
CHANGE IN NET POSITION	279,533	(2,233,163)	(566,358)
NET POSITION, BEGINNING OF YEAR	15,947,998	18,181,161	18,747,519
CHANGE IN ACCOUNTING PRINCIPLE	<u>(103,498)</u>	-	-
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>15,844,500</u>	<u>18,181,161</u>	<u>18,747,519</u>
NET POSITION, END OF YEAR	<u>\$ 16,124,033</u>	<u>15,947,998</u>	<u>18,181,161</u>

In 2012, operating revenue decreased \$283,632 and operating expenses decreased \$434,885. This resulted in a 2012 net operating loss of \$12,893,449, which was \$151,253 less of a loss than in 2011. In 2011, the net operating loss was \$13,044,702 which was \$449,276 less of a loss than in 2010.

In 2012, the Community Medical Health Clinic (CMHC) inpatient days increased as well as outpatient treatments. There was also an increase in overall patient days for long-term care and assisted living. Overall case weight for long-term care decreased; however, reimbursement rates increased with the provider tax implementation. In addition, additional revenue was realized through the Medicaid disproportionate share program. In 2011, CMHC inpatient days increased, and outpatient treatments decreased. There also was an increase in overall patient days for long-term care and assisted living; however, there was an overall decrease in the average reimbursement per patient day and decrease in pharmacy revenue.

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Management's Discussion and Analysis
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DEBT ACTIVITY

In 2011 \$9,115,000 of General Obligation Facility Refunding Bonds were issued by the county of Douglas, Nebraska. The bonds bear an interest rate of 0.6% to 3.75% with final maturity dated December 1, 2025. The bond proceeds were used to refund the 2005 General Obligation Bonds.

BUDGETARY HIGHLIGHTS

The Health Center annually adopts a budget on the cash basis as a part of the County budgeting process following the required public notice and hearing for the funds. In each of the years 2012, 2011 and 2010, an additional appropriation to the adopted budget was appropriated for salary increases. In 2010, an additional appropriation to the adopted budget was made to assist in the increased expenses realized in the employee benefits and drug categories. For 2012, operating revenue was budgeted at \$30,347,550 with actual receipts of \$28,322,690. For 2012, expenses were budgeted at \$42,835,999 with actual expenses of \$40,374,027. For 2011, operating revenue was budgeted at \$29,747,400 with actual receipts of \$29,987,279. For 2011, expenses were budgeted at \$41,529,596 with actual expenses of \$41,152,964.

ECONOMIC FACTORS AND NEXT YEAR BUDGET

Revenue and expenses are expected to remain at approximately the same level as the prior year. Occupancy rates do fluctuate throughout the year, but overall are expected to remain relatively consistent with last year, with similar volatility for revenue.

The County continues to review the employee benefit packages to help alleviate the increases that continue to be seen.

The State and Federal government continue to review options to assist it in balancing budgetary shortfalls. These options include decreased payments from the Nebraska Department of Health and Human Services and the United States Department of Health and Human Services for various services that the Health Center provides.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Douglas County Health Center's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Douglas County Health Center, 4102 Woolworth Avenue, Omaha, NE 68105.

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska

Statements of Net Position
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
Current assets:		
Cash and cash equivalents	\$ 5,334,596	3,846,893
Receivables -		
Patients, net of allowance for uncollectible accounts of of \$2,050,485 and \$2,248,586 for 2012 and 2011, respectively	6,021,844	6,598,945
Due from other governments	48,988	36,544
Due from Douglas County	99,421	56,468
Taxes, net allowance for uncollectable accounts of \$19,857 and \$22,261 for 2012 and 2011, respectively	3,766,714	2,986,562
Estimated third-party payor settlements	4,221,710	3,244,666
Prepaid expenses	11,207	9,862
Inventories	272,174	262,224
Assets held for others	289,564	290,008
Total current assets	<u>20,066,218</u>	<u>17,332,172</u>
Noncurrent assets:		
Cash internally designated or restricted	58,303	345,823
Deferred charges	--	103,498
Capital assets, net	15,065,527	16,092,158
Total noncurrent assets	<u>15,123,830</u>	<u>16,541,479</u>
Total assets	<u>\$ 35,190,048</u>	<u>33,873,651</u>
LIABILITIES AND DEFERRED INFLOW OF RESOURCES		
Current liabilities:		
Current portion of bonds payable	\$ 545,289	500,289
Accounts payable	1,034,617	707,479
Due to Douglas County	4,792,213	4,017,287
Accrued salaries and benefits payable	2,522,108	2,034,733
Compensated absences	1,273,805	1,204,792
Current portion of accrued claims on self-insured workers' compensation	115,685	125,844
Assets payable to others	289,564	290,008
Total current liabilities	<u>10,573,281</u>	<u>8,880,432</u>
Noncurrent liabilities:		
Accrued claims on self-insured workers' compensation, net of current portion	419,148	426,346
Bonds payable, net of current portion	8,073,586	8,618,875
Total noncurrent liabilities	<u>8,492,734</u>	<u>9,045,221</u>
Total liabilities	<u>19,066,015</u>	<u>17,925,653</u>
NET POSITION		
Net investment in capital assets	6,446,652	7,422,315
Restricted for debt service	--	2,193
Unrestricted	9,677,381	8,523,490
Total net position	<u>16,124,033</u>	<u>15,947,998</u>
Total liabilities and net position	<u>\$ 35,190,048</u>	<u>33,873,651</u>

See notes to the financial statements

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska

Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Net patient service revenue (net of provision for uncollectible accounts of \$1,379,770 and \$1,753,756 for 2012 and 2011, respectively)	\$ 27,862,706	28,076,064
Other	909,405	979,679
Total operating revenue	<u>28,772,111</u>	<u>29,055,743</u>
OPERATING EXPENSES:		
Departmental -		
Long-term care	9,974,012	9,399,528
General services	4,555,924	4,624,500
Ancillary services	6,723,849	8,511,696
Administrative services	8,372,660	7,766,254
Assisted living	205,080	184,509
Dietary services	2,566,288	2,565,376
Psychiatric services	5,640,116	5,454,224
Medical administration	1,218,098	1,159,317
Fiscal services	1,085,735	1,113,841
Nondepartmental -		
Special purpose fund expense	52,502	35,621
Depreciation	1,271,296	1,285,579
Total operating expenses	<u>41,665,560</u>	<u>42,100,445</u>
Operating loss	<u>(12,893,449)</u>	<u>(13,044,702)</u>
NONOPERATING REVENUE (EXPENSE):		
Property and real estate taxes	8,842,961	6,829,004
State and local funding	558,619	406,842
Investment earnings	1,321	146
Loss on disposal of capital assets	(178)	(1,074)
Interest expense	(226,979)	(423,379)
Total nonoperating revenue, net	<u>9,175,744</u>	<u>6,811,539</u>
LOSS BEFORE TRANSFERS IN	(3,717,705)	(6,233,163)
TRANSFERS IN	<u>3,997,238</u>	<u>4,000,000</u>
CHANGE IN NET POSITION	279,533	(2,233,163)
NET POSITION, BEGINNING OF YEAR	15,947,998	18,181,161
CHANGE IN ACCOUNTING PRINCIPLE	(103,498)	--
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>15,844,500</u>	<u>18,181,161</u>
NET POSITION, END OF YEAR	<u>\$ 16,124,033</u>	<u>15,947,998</u>

See notes to the financial statements

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska

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

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments for hospital services	\$ 26,598,573	27,971,134
Payments from Douglas County for hospital services	821,237	1,115,504
Other operating cash receipts	896,961	983,895
Cash payments to employees	(20,505,437)	(21,028,049)
Cash payments to others	(18,310,143)	(19,150,259)
Cash payments from (to) Douglas County	51,116	(270,004)
	<u>(10,447,693)</u>	<u>(10,377,779)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers	3,997,238	4,000,000
Tax receipts	8,062,809	7,510,429
State and local funding	558,619	406,842
	<u>12,618,666</u>	<u>11,917,271</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset acquisition	(244,843)	(719,491)
Bond proceeds	--	9,119,236
Bond issuance costs	--	(105,293)
Principal paid on capital debt	(500,289)	(9,305,000)
Interest paid on capital debt	(226,979)	(355,114)
	<u>(972,111)</u>	<u>(1,365,662)</u>
CASH FLOWS FROM INVESTING ACTIVITIES,		
Interest and dividends	<u>1,321</u>	<u>146</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,200,183	173,976
CASH AND CASH EQUIVALENTS - Beginning of year	<u>4,192,716</u>	<u>4,018,740</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 5,392,899</u>	<u>4,192,716</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO THE STATEMENT OF NET POSITION		
Cash and cash equivalents - current assets	\$ 5,334,596	3,846,893
Cash internally designated or restricted	58,303	345,823
Total cash	<u>\$ 5,392,899</u>	<u>4,192,716</u>

See notes to the financial statements

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska

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

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (12,893,449)	(13,044,702)
Adjustments to reconcile operating loss to net cash used by operating activities -		
Depreciation	1,271,296	1,285,579
Changes in assets and liabilities -		
Receivables -		
Patients	577,101	372,788
Due from other governments	(12,444)	4,216
Due from Douglas County	(42,953)	211,588
Estimated third-party payor settlements	(977,044)	426,198
Prepaid expenses	(1,345)	8,543
Inventories	(9,950)	32,459
Accounts payable	327,138	(245,808)
Due to Douglas County	774,926	619,360
Accrued Salaries and benefits payable	487,375	15,552
Compensated absences	69,013	(13,408)
Accrued claims on self-insured workers' compensation	(17,357)	(50,144)
	<u>(10,447,693)</u>	<u>(10,377,779)</u>
Net cash used by operating activities	\$ <u>(10,447,693)</u>	<u>(10,377,779)</u>

See notes to the financial statements

Notes to Financial Statements
June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and is a summary of the significant accounting policies of Douglas County Health Center (Health Center), a Proprietary Fund of Douglas County, Nebraska (the County).

A. Reporting Entity

The Health Center is considered a Proprietary Fund of the County. The Health Center's financial statements include the following funds maintained by the County:

- Douglas County Health Center Fund
- Hospital Special Purpose Fund (Gift Shop)
- Hospital Improvement Construction Fund
- Hospital Improvement Bond Fund

The Health Center Patient Fund Trust Account is included in the statements of net position and is the subject of a separate financial statement.

The Health Center's financial statements are in integral part of Douglas County, Nebraska. The accompanying financial statements are not intended to present fairly the financial position and changes in financial position of Douglas County, Nebraska, in conformity with generally accepted accounting principles.

The Health Center was organized as a county hospital under the provisions of §23-343 of the Statutes of the State of Nebraska (amended 1943).

The Health Center is a 308 bed institution comprised of the following:

- Assisted Living – 24 beds
- Skilled Nursing (long-term care) – 254 beds
- Acute Psychiatric Care – 30 beds

The skilled nursing and acute psychiatric care beds are certified under both the Medicare and Medicaid health care programs. The assisted living beds are only certified under the Medicaid health care program. The Health Center also provides psychiatric counseling services for both inpatients and outpatients.

The Community Mental Health Center (CMHC) operates within the Health Center facility and is included in the financial statements of the Health Center. CMHC operates acute psychiatric beds, psychiatric outpatient services, a day treatment program and a mental health diversion program. CMHC must satisfy certain requirements established by the funding agencies. The requirements include providing specified services to a defined area and population, which includes low income or indigent persons, making reasonable effort to collect professional fees, and complying with federal, state and local accreditation and licensing standards.

The Board of County Commissioners of the County serves as the Board of Trustees of the Health Center and supervises the operations of the Health Center. As a proprietary fund of a political subdivision, the Health Center is exempt from federal income tax.

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.

Notes to Financial Statements
June 30, 2012 and 2011

Management believes that the Health 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 Health Center's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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

C. Basis of Accounting

The Health Center's financial statements are presented on the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when incurred

D. Accounting Standards

The Health Center's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is primarily responsible for establishing GAAP for state and local governments through its pronouncements. Governments had been also required to follow the statements and interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) opinions and Accounting Research Bulletins (ARB) issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. Although the Health Center had the option to apply FASB statements and interpretations issued after that date, the Health Center has chosen not to do so. In December 2010, GASB issued statement No. 62 which incorporated all relevant guidance into GASB standards.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

The Health Center has defined cash and cash equivalents to include cash on hand, deposits with the County, and cash and certificates of deposit held by a fiscal agent in the Health Center's name. Cash and cash equivalents include certain investments in highly liquid investments with original maturities of three months or less.

G. Patient Receivables, Net

Net patient receivables consist of uncollateralized patient and third-party obligations reduced by a valuation allowance for uncollectable accounts and contractual adjustments from third-party payors. The allowances reflect management's estimate of amounts that will not be collected in the future and are based on reviews of patient balances by payor classes and aging categories. Percentages are applied to each payor class and aging category based on contractual agreements as well as historical collection and recovery information to determine the net realizable value of the patient receivables.

H. Inventories

Inventories consist of expendable supplies and pharmaceuticals held for the Health Center's use. The expendable supplies are carried at cost using the first-in, first-out method. Pharmaceuticals are valued at market price as of June 30, 2012 and 2011.

Notes to Financial Statements
June 30, 2012 and 2011

I. Cash Internally Designated or Restricted

Cash internally designated or restricted includes cash set aside by the Board of Trustees for construction and non-operating purposes over which the Board retains control and may, at its discretion, subsequently use for other purposes and cash restricted for debt service.

J. Capital Assets

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed when incurred. Depreciation on all assets is provided on the straight-line basis, with a range of useful lives from 3 to 40 years.

K. Compensated Absences

Employees can earn annual vacation, comp time, sick leave and holiday time at various rates during their period of employment. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum of 240 hours. Employees do not receive payment for unused sick leave upon termination of employment; instead, unused sick leave is credited toward length of service when calculating pension benefits.

Vacation leave and other compensated absences with similar characteristics are accrued as benefits when earned if the leave is attributable to past service, and it is probable that the Health Center will compensate the employees for such benefits. Such accruals are based on current salary rates and include salary-related payments directly and incrementally associated with payments made for compensated absences on termination.

L. Net Position

Net position classifications are defined as follows:

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 outstanding liabilities that are attributable to the acquisition, construction or improvement of those assets.

Restricted for debt service – This component of net position consists of noncapital net position items that must be used for debt service, as specified by creditors external to the Health Center.

Unrestricted – This component of net position consists of net position items that do not meet the definition of “invested in capital assets” or “restricted for debt service”, as defined above.

M. Restricted Resources

When the Health Center has both restricted and unrestricted resources available to finance a particular activity or program, it is the Health Center’s policy to use restricted resources before unrestricted resources.

N. Net Patient Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, fee schedule amounts, discounted charges and per diem payments.

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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.

O. Indigent Care

The Health Center provides indigent health care services under three separate programs. The Primary Health Care Network is the County's indigent medical services program. Many of these clients receive ancillary services at the Health Center. Services to clients qualifying under this program are written off as indigent care. The Health Center also has a sliding scale discount program based on the national poverty guidelines. Required payment range is from 3% to 90%. Proof of income is required and the discount applies to all services. A separate sliding scale program is available to CMHC clients based on guidelines issued by Region 6, an agency that provides funding for behavioral healthcare in Eastern Nebraska. This discount is available only on face-to-face services and does not cover ancillary charges. In all cases, there is no other third-party coverage available. For CMHC services covered under Region 6, the discount is available to all the residents of the region, otherwise the patient must be a resident of Douglas County, Nebraska.

P. Patient Resources

Included in the Health Center's statements of net position, as assets held for others, are assets held in the Douglas County Health Center Patient Fund. This is a trust fund that was created for the convenience of the Health Center's long-term care patients. It is not considered part of the Health Center's operations. Monies received on behalf of the patients are invested in interest-bearing accounts with sufficient cash maintained on hand or in a checking account to satisfy day-to-day patient needs. A corresponding liability is included in the Health Center's financial statements.

Q. Operating Revenue and Expenses

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

R. Change in Accounting Principle

During 2012, the Health Center has adopted the provisions of GASB Statements 63 & 65. Prior to 2012 the Health Center reported bond issuance costs by amortizing them over the life of each issue. In compliance with GASB Statement No. 65 the Health Center has expensed all remaining bond issuance costs of \$103,498. GASB Statement No. 63 required additional changes such as now referring to "Net Assets" as "Net Position" on the statements of net position.

S. Reclassification

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

T. Subsequent Events

The Health Center considered events occurring through December 31, 2012 for recognition or disclosure of the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Douglas County Health Center
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Notes to Financial Statements
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(2) Net Patient Service Revenue

The Health Center has agreements with third-party payors that provide for reimbursement to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute psychiatric services, inpatient non-acute services and certain outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services are paid on a fee schedule. The Health Center's Medicare cost reports have been audited by the Medicare administrative contractor and finalized through June 30, 2010.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at an all-inclusive prospectively determined per diem rate and long-term care services are reimbursed at a prospectively determined per diem rate for routine services only. Outpatient services are paid based upon a percentage-of-cost method.

The Health Center has also entered into various other agreements for services rendered. The basis for payment to the Health Center under these agreements includes discounts on established charges. In addition, the Health Center provides indigent care to residents of the County for which it does not anticipate reimbursement from any source.

Revenue from the Medicare and Medicaid programs accounted for approximately 76% and 70% of the Health Center's net patient service revenue for the years ended June 30, 2012 and 2011, respectively. 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. In 2012 and 2011, settlements did not materially impact net patient service revenue.

CMHC operates under a contract with the Mental Health Region 6 Governing Board for performance of mental health services. Under this agreement, the Program adheres to the statutory and regulatory requirements of Omnibus Budget Reconciliation Act of 1981, P.L. 97-35, for the receipt of Mental Health Block Grant funds. The Mental Health Block Grant funds are comprised mainly of state funds. CMHC received Mental Health Block Grant funds of \$1,893,466 and \$1,777,679 in 2012 and 2011, respectively, which is included with gross patient service revenue.

The following illustrates the Health Center's patient service revenue at its established rates and the revenue deductions by major third-party payors for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue	\$ 29,913,720	30,582,073
Deductions from patient service revenue:		
Estimated Medicare adjustments	(1,394,558)	(919,530)
Estimated Medicaid adjustments	1,020,116	496,879
Estimated Medicaid intergovernmental transfer and settlement	3,444,312	3,220,000
Estimated deduction for other billing adjustments	(2,152,933)	(1,825,934)
Estimated deduction for indigent care	<u>(1,588,181)</u>	<u>(1,723,668)</u>
Net patient service revenue (before provision for bad debt)	29,242,476	29,829,820
Provision for bad debt	<u>(1,379,770)</u>	<u>(1,753,756)</u>
Net patient service revenue	<u>\$ 27,862,706</u>	<u>28,076,064</u>

(3) Other Operating Revenue

Other operating revenue consists of charges to other county, state and local agencies for miscellaneous Health Center services.

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(4) Cash and Cash Equivalents and Cash Internally Designated or Restricted

Health Center

As described in Note 1, the Health Center is a Proprietary Fund of the County. Except as noted below (Patient Resources), the Health Center's cash and cash equivalents are held by the County and commingled at the County level.

The County has generally pooled the cash resources of the various funds, except the pension trust fund, for investment purposes. The interest on pooled funds is credited to the County's general fund in accordance with Nebraska State Statute §77-2315, R.R.S. 1943.

Deposits

For the purposes of classifying categories of custodial risk, the bank balances of the County's deposits as of June 30, 2012 and 2011, are either entirely insured or collateralized with securities held by the County's agents in the County's name.

Investments

County funds are invested in conformity with the Public Funds Security Act, Chapter 77, Article 23, specifically 77-2387, of the Revised Nebraska Statutes. Allowable investments include US Government bonds, US Treasury bills and notes, US Agency bonds and notes, certain state and political subdivision bonds, warrants of the State of Nebraska and Nebraska political subdivisions and certain instruments of the FHLM, federal farm credit system, FHLB, FNMA and the Small Business Administration. The government money market mutual fund consists of only those securities that are allowed by N.R.S. 77-2387.

Patient Resources

The Health Center maintains an account that was created for the convenience of the Health Center's long-term care patients. These deposits are not co-mingled with County funds. Health Center had patient resource cash deposits totaling \$289,564 and \$290,008 with total bank balances of \$294,131 and \$288,916 at June 30, 2012 and 2011, respectively.

Custodial credit risk is the risk that in the event of a bank failure, the Health Center's deposits may not be returned to it. The Health Center does not have a deposit policy for custodial credit risk for the funds held for the benefit of its long-term care patients. As of June 30, 2012 and 2011, \$294,131 and \$288,916, respectively, of the Health Center's patient fund bank balance's custodial credit risk was protected by FDIC insurance of \$250,000 and collateralized securities held by the pledging financial institution with a market value of \$634,680.

(5) Composition of Patient Receivables

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

	<u>2012</u>	<u>2011</u>
Patient accounts	\$ 12,106,175	13,439,367
Less estimated third-party contractual adjustments	(4,033,846)	(4,591,836)
Less allowance for uncollectible accounts	<u>(2,050,485)</u>	<u>(2,248,586)</u>
	<u>\$ 6,021,844</u>	<u>6,598,945</u>

Notes to Financial Statements
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The Health Center grants credits without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2012</u>	<u>2011</u>
Medicare/Medicaid	34%	24%
Commercial	5%	4%
Private pay/Pending	<u>61%</u>	<u>72%</u>
	<u>100%</u>	<u>100%</u>

(6) Retirement Plan

Plan Description and Funding Policy

The Health Center participates in the Douglas County Employees' Retirement Plan (Plan). The County maintains a single-employer defined benefit pension plan which provides retirement, disability, death and termination benefits to substantially all employees on their first day of continuous employment.

Membership data related to the Plan for the year beginning January 1, 2012, the date of the latest actuarial valuation, is as follows:

	<u>2012</u>	<u>2011</u>
Retirees and beneficiaries receiving benefits	1,066	993
Terminated Plan members entitled to but not yet receiving benefits	89	94
Disabled participants	<u>30</u>	<u>31</u>
	<u>1,185</u>	<u>1,118</u>

The general management and administration of the Plan, as well as carrying out the provisions of the Plan, are the responsibility of the Retirement Committee of the County (Committee), which consists of at least one County commissioner and other employees of the County as appointed by the Board. The Committee is responsible for determining the entitlement of members to benefits and establishing policies regarding obligations of members and the County to contribute to the Plan. Cost of living adjustments determined by the Committee are paid by the County after Board of Commissioner approval. No additional salary is paid to Committee members. The Plan has no legally required reserves.

The Plan is not subject to either the minimum funding standards of the Employee Retirement Income Security Act of 1974 or the maximum funding limitations. Funding standards are actuarially determined using the projected unit-credit-cost method. Actuarial reviews were produced on a biennial basis, the most recent being as of January 1, 2011. Plan assets are reported on a yearly basis, the most recent being June 30, 2012.

Valuation date	June 30, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent
Remaining amortization period	30 years open period
Asset valuation method	Fair value on December 31, 2011
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increase	4% to 5.5% per year
Cost-of-living adjustments	COLA are reviewed on a biannual basis

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Annual Pension Cost and Net Pension Obligation

The County's annual pension cost and net pension obligation of the Plan for the years ended June 30, 2012 and June 30, 2011, respectively:

	<u>2012</u>	<u>2011</u>
Annual Required Contribution (ARC)	\$ 18,793,990	18,405,264
Employee contribution	<u>(9,420,664)</u>	<u>(9,380,477)</u>
Employer annual required contribution	9,373,326	9,024,787
Interest on net pension assets	154,404	172,241
Adjustment to annual required contribution	<u>(93,411)</u>	<u>(99,196)</u>
Annual pension cost	9,434,319	9,097,832
Contributions made	<u>(9,357,802)</u>	<u>(9,335,652)</u>
Increase in the net pension obligation	76,517	(237,820)
Net pension obligation, beginning of year	<u>2,058,722</u>	<u>2,296,542</u>
Net pension obligation, end of year	\$ <u><u>2,135,239</u></u>	<u><u>2,058,722</u></u>

The net pension liability of \$2,135,239 and \$2,058,722, as of June 30, 2012 and 2011, respectively, is reflected as a net pension liability within governmental activities in the government-wide financial statements of the County. The annual pension costs, the percentage of annual pension cost contributions and the net pension obligation for 2012, 2011 and 2010 (restated), are as follows:

Year Ending June 30,	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2012	\$ 9,434,319	99.2%	2,135,239
2011	9,097,832	102.6%	2,058,722
2010	8,110,325	118.2%	2,296,542

A. *Basis of Accounting*

The Plan's financial statements are prepared using the accrual basis of accounting and are presented as a pension trust fund in the accompanying basic financial statements of the County. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits are provided based on a percentage of the member's final average compensation and are recognized when due and payable. Separate audited financial statements for the Plan are not available. Quarterly and annual financial reports are available on the Employees' Pension Committee website or from the Insurance and Pension Coordinator, Room 505, Omaha-Douglas Civic Center, 1819 Farnam Street, Omaha, Nebraska, 68183.

Notes to Financial Statements
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B. Method Used to Value Investments

Plan assets are invested in readily marketable securities and are carried at fair value. Investments in securities traded on a national securities exchange are valued at the latest quoted market prices. For investments where no readily available market value exists, management, in consultation with their investment advisors, values those investments in good faith based upon audited financial statements or other information provided by the underlying investment advisor.

C. Contributions

Annual contributions to the Plan for members are composed of employee contributions equal to 8.5% of reported earnings beginning on January 1, 2009. The County contributes an amount equal to the employee's contribution.

D. Funded Status and Funding Progress

The schedule of funding progress is presented as required supplementary information after the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the Retirement Plan assets is increasing or decreasing over time relative to the actuarially accrued liabilities for benefits

(7) Post-Retirement Healthcare Benefits

A. Post-Employment Benefits

The County follows Governmental Accounting Standards Board Codification Section P50 (GASB P50), Post-employment Benefits Other Than Pension Benefits – Employer Reporting. This section requires the accounting for the annual cost of other post-employment benefits (OPEB) and the related outstanding liability using an actuarial approach similar to pensions.

B. Plan Description

The County provides certain post-employment health care benefits (OPEB Plan) to eligible retirees and their dependents up to age 65 when they would be Medicare eligible. They include medical, dental, vision and life insurance. The benefits and employee contributions were the same as for active employees at 13.5% of premium cost. Effective January 1, 2010, the contribution rate was raised to 25% of the premium cost for single coverage and to 35% of the costs for family coverage. The rates paid by retirees under these conditions are substantially lower than they would be under individual health insurance policies. This difference is an implicit rate subsidy and considered OPEB under GASB P50. The OPEB Plan is a single-employer defined benefit healthcare plan administered by the County. The OPEB Plan does not issue separate financial statements.

C. Funding Policy

The contribution requirements of OPEB Plan members and the County are established by, and can be amended by, the Douglas County Board of Commissioners. Contributions are made to the OPEB Plan based on a pay-as-you-go basis. For the year ended June 30, 2012, the County contributed \$1,913,264 net of retiree contributions for 246 out of a total of 1,066 retirees, in addition to their covered dependents Retiree contributions for 2012 were \$808,820. This is 29.8% of the total premium.

D. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB costs for the year, the amount actually contributed to the OPEB Plan, and changes in the County's net OPEB obligation. The net OPEB obligation is allocated entirely to governmental activities.

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	<u>2012</u>	<u>2011</u>
Annual OPEB cost	\$ 5,654,677	5,455,419
Contributions Made	<u>(1,913,264)</u>	<u>(2,587,191)</u>
Increase in OPEB obligation	3,741,413	2,868,228
Net OPEB obligation- Beginning of year	<u>13,251,838</u>	<u>10,383,610</u>
Net OPEB obligation - end of year	<u>\$ 16,993,251</u>	<u>13,251,838</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligations for 2012, 2011 and 2010, are as follows:

Year Ending June 30,	Annual OPEB Cost	Percentage of Annual OPEB Contributed	Net OPEB
June 30, 2012	5,654,677	33.8%	16,993,251
June 30, 2011	5,455,419	47.4%	13,251,838
June 30, 2010	5,507,142	47.3%	10,383,610

E. Funding Status and Funding Progress

As of July 1, 2012, the initial and most recent actuarial valuation date, the OPEB Plan is 0% funded. The actuarial accrued liability for the benefits is \$52,758,504. The value of the OPEB Plan assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$52,758,504. The ratio of UAAL to covered payroll was 48.6%.

Actuarial valuations on an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan (the plan as understood by the employer and the OPEB Plan members) and include benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the OPEB Plan member to that point. The actuarial methods used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return that the blended rate of the expected long term investment return of OPEB Plan assets, which are zero, and on the employer's own investments calculated based upon the level of the plan at the valuations date, a 4% discount rate, at July 1, 2011, an annual healthcare cost trend of 9% initially, reduced by increments to an ultimate rate of 5% after eight years. 70% of eligible members are assumed to elect coverage upon retirement. The open amortization period is 30 years using the level dollar amortization method.

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(8) Capital Assets

Capital assets' activity for the year ended June 30, 2012 and 2011 were as follows:

	<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>Transfers and</u> <u>Disposals</u>	<u>June 30,</u> <u>2012</u>
Capital assets, not being depreciated:				
Land	\$ 442,000	--	--	442,000
Construction in progress	--	141,000	(26,292)	114,708
Total capital assets, not being depreciated	<u>442,000</u>	<u>141,000</u>	<u>(26,292)</u>	<u>556,708</u>
Capital assets, being depreciated:				
Land improvements	362,077	--	--	362,077
Buildings and fixtures	8,049,907	--	--	8,049,907
Building improvements	25,675,870	22,000	--	25,697,870
Fixed equipment	59,412	--	--	59,412
Moveable equipment	2,610,692	108,135	(12,213)	2,706,614
Total capital assets, being depreciated	<u>36,757,958</u>	<u>130,135</u>	<u>(12,213)</u>	<u>36,875,880</u>
Less accumulated depreciation:				
Land improvements	(362,077)	--	--	(362,077)
Buildings and fixtures	(7,994,316)	(18,038)	--	(8,012,354)
Building improvements	(10,692,027)	(1,124,398)	--	(11,816,425)
Fixed equipment	(57,332)	(312)	--	(57,644)
Moveable equipment	(2,002,048)	(128,548)	12,035	(2,118,561)
Total accumulated depreciation	<u>(21,107,800)</u>	<u>(1,271,296)</u>	<u>12,035</u>	<u>(22,367,061)</u>
Total capital assets, being depreciated, net	<u>15,650,158</u>	<u>(1,141,161)</u>	<u>(178)</u>	<u>14,508,819</u>
Total capital assets, net	<u>\$ 16,092,158</u>	<u>(1,000,161)</u>	<u>(26,470)</u>	<u>15,065,527</u>
	<u>June 30,</u> <u>2010</u>	<u>Additions</u>	<u>Transfers and</u> <u>Disposals</u>	<u>June 30,</u> <u>2011</u>
Capital assets, not being depreciated:				
Land	\$ 442,000	--	--	442,000
Construction in progress	335,373	559,781	(895,154)	--
Total capital assets, not being depreciated	<u>777,373</u>	<u>559,781</u>	<u>(895,154)</u>	<u>442,000</u>
Capital assets, being depreciated:				
Land improvements	362,077	--	--	362,077
Buildings and fixtures	8,049,907	--	--	8,049,907
Building improvements	24,632,874	1,042,996	--	25,675,870
Fixed equipment	60,127	--	(715)	59,412
Moveable equipment	2,638,120	11,868	(39,296)	2,610,692
Total capital assets, being depreciated	<u>35,743,105</u>	<u>1,054,864</u>	<u>(40,011)</u>	<u>36,757,958</u>
Less accumulated depreciation:				
Land improvements	(362,077)	--	--	(362,077)
Buildings and fixtures	(7,974,132)	(20,184)	--	(7,994,316)
Building improvements	(9,560,809)	(1,131,218)	--	(10,692,027)
Fixed equipment	(57,688)	(359)	715	(57,332)
Moveable equipment	(1,906,452)	(133,818)	38,222	(2,002,048)
Total accumulated depreciation	<u>(19,861,158)</u>	<u>(1,285,579)</u>	<u>38,937</u>	<u>(21,107,800)</u>
Total capital assets, being depreciated, net	<u>15,881,947</u>	<u>(230,715)</u>	<u>(1,074)</u>	<u>15,650,158</u>
Total capital assets, net	<u>\$ 16,659,320</u>	<u>329,066</u>	<u>(896,228)</u>	<u>16,092,158</u>

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Depreciation expense of \$1,271,296 and \$1,285,579 for 2012 and 2011, respectively, is included in the accompanying statements of revenue, expenses and changes in net position.

(9) Long-Term Debt

A summary of long-term debt obligations at June 30, 2011 and 2012 is as follows:

	<u>June 30,</u> <u>2011</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2012</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Facility					
Refunding Bonds (B)	\$ 9,115,000	--	(500,000)	8,615,000	545,000
Bond Premium (B)	<u>4,164</u>	<u>--</u>	<u>(289)</u>	<u>3,875</u>	<u>289</u>
	<u>\$ 9,119,164</u>	<u>--</u>	<u>(500,289)</u>	<u>8,618,875</u>	<u>545,289</u>
	<u>June 30,</u> <u>2010</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2011</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Bonds (A)	\$ 9,305,000	--	(9,305,000)	--	--
General Obligation Facility					
Refunding Bonds (B)	--	9,115,000	--	9,115,000	500,000
Bond Premium (B)	<u>27,000</u>	<u>4,236</u>	<u>(72)</u>	<u>31,164</u>	<u>289</u>
	<u>\$ 9,332,000</u>	<u>9,119,236</u>	<u>(9,305,072)</u>	<u>9,146,164</u>	<u>500,289</u>

The terms and due dates of the Health Center's long-term debt at June 30, 2012 are as follows:

- (A) General Obligation Bonds, original issue amount of \$10,500,000 dated November 30, 2005, were issued by the County of Douglas, Nebraska. The bonds bear interest rates of 3.35% to 4.75 with final maturity dated December 1, 2012.
- (B) General Obligation Facility Refunding Bonds, original issue amount of \$9,115,000 dated April 5, 2011, were issued by the county of Douglas, Nebraska. The bonds bear an interest rate of 0.6% to 3.75% with final maturity dated December 1, 2025. Bond proceeds were used to refund the 2005 Bonds, including interest expense of \$133,943, and pay issuance costs on the 2011 bonds of \$105,293.

In connection with the refunding of the 2005 Bonds, the Health Center recorded a \$66,542 write down of unamortized bond issuance costs associated with the 2005 Bonds. This expense is included with interest expense in the accompanying statements of revenue and expenses and changes in net position for 2011.

In 2012, a change in accounting principle was implemented which adjusted net position for the remainder of the bond issuance costs by \$103,498. Due to the overall immaterial nature of the effect of this change, no retroactive adjustments were made in 2011.

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The annual debt service requirements, to maturity, for long term debt as of June 30, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	545,000	226,398	771,398
2014	545,000	222,038	767,038
2015	550,000	215,188	765,188
2016	560,000	206,163	766,163
2017	570,000	195,563	765,563
2018-2022	3,060,000	739,527	3,799,527
2023-2027	2,785,000	204,522	2,989,522
	<u>\$ 8,615,000</u>	<u>2,009,399</u>	<u>10,624,399</u>

(10) Risk Management

The Health Center is included in the insurance coverage of the County. The County manages various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and natural disasters. The County established a Risk Management Division to account for and finance its risks of loss. These risks of loss are covered by various commercial insurance policies. The insurance policies have deductibles ranging from \$5,000 to \$1,000,000, with first dollar coverage for physician malpractice.

The County is self-insured up to \$1,000,000 per occurrence for worker's compensation risks and up to \$350,000 per occurrence for general risks.

The Health Center has accrued liabilities of \$534,833 and \$552,190 for self-insured losses at June 30, 2012 and 2011, respectively. These accrued liabilities are based on the County's evaluation of the merits of various claims, historical experience and consultation with external insurance consultants. The accrued liabilities include estimates for incurred but not reported claims. Losses estimated to be settled within one year have been classified as current liabilities.

	June 30, 2011	Additions	Reductions	June 30, 2012	Amounts Due Within One Year
Accrued claims on self-insured workers' compensation	\$ 552,190	161,167	(178,524)	534,833	115,685

	June 30, 2010	Additions	Reductions	June 30, 2011	Amounts Due Within One Year
Accrued claims on self-insured workers' compensation	\$ 602,334	154,457	(204,601)	552,190	125,844

Notes to Financial Statements
June 30, 2012 and 2011

(11) Designated Net Position

Of the \$9,677,381 and \$8,523,490 of unrestricted net position reported in 2012 and 2011, respectively, \$58,303 and \$345,823 have been designated by the Health Center's Board of Trustees for construction and non-operating purposes over which the Board retains control and may, at its discretion, subsequently use for other purposes.

(12) Contingencies

A. Federal Financial Assistance

The Health Center participates in federally assisted grant programs. Compliance with grant provisions is subject to audit by various government agencies which may impose sanctions in the event of noncompliance. Management believes that they have complied with all aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would be immaterial to the accompanying financial statements.

B. Other

The Health Center maintains first-dollar coverage professional liability insurance through a "claims made" basis commercial insurance policy. Nebraska State law limits recoveries from governmental entities to \$1 million per incident and \$5 million in aggregate.

C. Litigation

The Health Center is involved in various legal actions arising in the ordinary course of business. The Health Center is vigorously contending these legal actions, and, in the opinion of the Douglas County Attorney, the Health Center has adequate legal defenses with respect to these actions and does not believe that they will materially affect the Health Center's financial position.

(13) Douglas County Health Center Foundation

The Douglas County Health Center Foundation (Foundation) is a 501(c) (3) charitable foundation that is financed by various fundraising activities and by individual and institutional charitable donations. The Foundation was established to provide enhancements for the residents of the Health Center in manners that the Health Center could not. No cash is transferred from the Foundation to the Health Center. The Foundation is governed by a board of community volunteers and all activities by Douglas County employees are not on Health Center time. The Foundation received \$30,975 and \$31,065 in contributions and other revenue in the fiscal years ended June 30, 2012 and 2011, respectively. The Foundation had net assets of \$126,031 and \$135,357 at June 30, 2012 and 2011, respectively.

Types of direct expenditures made by the Foundation include scholarships for employees, festivals and recreational activities for residents, maintenance of companion animals and enhanced floral and other garden plantings.

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska

Required Supplementary Information – Unaudited
Schedule of Funding Progress and Employer Contributions
Douglas County Employees’ Retirement Plan

Schedule of Funding Progress

Douglas County Employees Retirement Plan

Actuarial Valuation June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2012	\$ 208,664,466	\$ 352,560,033	\$ 143,895,567	59.2%	\$ 111,249,795	129.3%
2011	197,767,391	330,055,953	132,288,562	59.9%	110,193,949	120.1%
2010	186,958,265	314,553,458	127,595,193	59.4%	109,504,216	116.5%
2009	172,895,403	298,766,602	125,871,199	57.9%	104,493,652	120.5%
2008	172,913,863	280,238,558	107,324,695	61.7%	99,302,913	108.1%
2007	171,571,563	259,668,167	88,096,604	66.1%	94,627,930	93.1%
2006	158,497,646	244,293,843	85,796,198	64.9%	90,242,388	95.1%
2005	147,044,413	230,621,728	83,577,315	63.8%	90,697,991	92.1%
2004	137,585,820	213,296,799	75,710,979	64.5%	87,393,315	86.6%
2003	129,003,405	196,824,599	67,821,195	65.5%	79,732,771	85.1%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution (ARC)	Employer Contributions	Percentage of ARC Contributed
2012	\$ 18,793,990	\$ 9,357,802	49.8%
2011	18,405,264	9,335,652	51.0%
2010	17,551,541	9,532,807	54.0%
2009	16,128,856	9,183,301	57.0%
2008	14,618,373	8,171,517	56.0%
2007	13,888,320	6,857,141	49.0%
2006	13,481,623	5,654,967	42.0%
2005	12,479,255	5,031,335	40.0%
2004	11,273,551	4,764,784	42.0%
2003	10,124,628	4,555,184	45.0%

Douglas County Health Center
A Proprietary Fund of Douglas County, Nebraska

Required Supplementary Information – Unaudited
Schedule of Funding Progress and Employer Contributions
Douglas County Employees' Postemployment Plan

Schedule of Funding Progress

Douglas County Employees Postemployment Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	\$ --	\$ 52,758,504	\$ 52,758,504	0%	\$ 108,587,007	48.6%
July 1, 2011	--	52,758,504	52,758,504	0%	107,647,632	49.0%
July 1, 2009	--	51,766,877	51,766,877	0%	108,948,674	47.5%
July 1, 2007	--	56,895,886	56,895,886	0%	93,696,887	60.7%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution (ARC)	Employer Contributions	Percentage of ARC Contributed
2012	\$ 5,890,958	\$ 1,913,264	32.5%
2011	5,455,419	2,587,191	47.4%
2010	5,507,142	2,606,297	47.3%
2009	6,000,839	2,454,997	40.9%
2008	6,071,035	2,134,111	35.2%

**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
Douglas County Health Center
Omaha, Nebraska:

We have audited the financial statements of Douglas County Health Center (Health Center), a Proprietary Fund of Douglas County, Nebraska, as of and for the year ended June 30, 2012, and have issued our report thereon, dated December 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Health Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings and responses as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less secure than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Health 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 that are required to be reported under *Government Auditing Standards*.

The Health Center's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Health Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the Health Center, and is not intended to be and should not be used by anyone other than these specified parties.

Slip Johnson, LLP

Omaha, Nebraska,
December 31, 2012.

Schedule of Findings and Responses
For the Year Ended June 30, 2012

I. Financial Statement Findings

Item 2012-1

Significant Deficiency:

Criteria:	The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimations and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements.
Condition:	We identified a misstatement in the financial statements related to allowances for doubtful accounts and contractual allowances that impact the net realizable value of accounts receivable during the audit that was not entirely identified by the Health Center's internal controls.
Cause	The processes used by management to estimate the allowances for doubtful accounts and contractual allowances is very complex due to the nature of patients served by the Health Center. The process to qualify some patients for Medicaid assistance can take several years. Collecting historical data to evaluate the net realizable value of aged accounts receivable is a tedious and time consuming process. A more extensive or detailed approach is needed to properly evaluate collection rates and needed allowances.
Effect:	An audit journal entry was made to adjust amounts recorded by management for the aforementioned allowance estimates.
Recommendation:	We recommend that management review their estimation processes, add additional procedures, collect additional data on collection rates of aged receivables and revise current estimates to more accurately estimate the net realizable value of accounts receivable at year end and on an interim basis.
Views of Responsible Officials and Planned Corrective Actions:	Management is aware of this deficiency and is currently evaluating systems that could assist and improve the existing estimation process at year end and on an interim basis.
Conclusion:	Response accepted.