

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

Financial Statements
June 30, 2013 and 2012

Together with Independent Auditor's Report

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

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 – 2
Management's Discussion and Analysis	3 – 6
Financial Statements:	
Statements of Net Position June 30, 2013 and 2012	7
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012	8
Statements of Cash Flows For the Years Ended June 30, 2013 and 2012	9 – 10
Notes to Financial Statements June 30, 2013 and 2012	11 – 21
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	22 – 23
Schedule of Findings and Responses For the Year Ended June 30, 2013	24
Schedule of Prior Year Audit Findings For the Year Ended June 30, 2013	25

Independent Auditor's Report

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

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements which collectively comprise the Health 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. 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 disclosure 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 reasonable basis for our opinion.

Opinion

In our opinion, the financial statements referred to above 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, 2013 and 2012, 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.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in

accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013, 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* in considering the Health Center's internal control over financial reporting.

Spim Johnson, LLP

Omaha, Nebraska,
December 27, 2013.

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

Management's Discussion and Analysis
June 30, 2013 and 2012

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, 2013, 2012 and 2011. 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 decreased \$1,038,388 from 2012 to 2013 and increased by \$176,035, from 2011 to 2012. The decrease to 2013 is primarily due to decreased property and real estate tax revenue. The increase to 2012 is due to increased property and real estate tax revenue.
- Operating revenue increased \$979,483 to \$29,751,594, as compared to \$28,772,111 in 2012. Operating revenue in 2011 was \$29,055,743. The change in 2013 relates primarily to an increase in patient volume and patient mix. The decrease in 2012 relates primarily to an increase in patient volume offset by a change in patient mix.
- From 2012 to 2013, operating expenses decreased \$821,903 due to decreased pharmacy costs of approximately \$2,200,000 offset by an increase in salaries and benefits of approximately \$1,200,000 million. 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.
- This combination of decreased revenue and decreased expenses resulted in a 2013 operating loss of \$11,092,063 which is \$1,801,386 less of a loss than 2012. In 2011, the operating loss was \$13,044,702.

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; and 2) Notes to Financial Statements.

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 statements of net position 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, 2013 and 2012

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 years ended June 30, 2013, 2012 and 2011 is:

Summary of Statements of Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS:			
Current	\$ 19,877,642	20,066,218	17,332,172
Non-current	13,885,501	15,123,830	16,541,479
	<u>\$ 33,763,143</u>	<u>35,190,048</u>	<u>33,873,651</u>
LIABILITIES:			
Current	\$ 10,937,002	10,573,281	8,880,432
Non-current	7,740,496	8,492,734	9,045,221
	<u>18,677,498</u>	<u>19,066,015</u>	<u>17,925,653</u>
NET POSITION:			
Net investment in capital assets	5,805,712	6,446,652	7,422,315
Restricted for debt service	-	-	2,193
Unrestricted	9,279,933	9,677,381	8,523,490
	<u>15,085,645</u>	<u>16,124,033</u>	<u>15,947,998</u>
	<u>\$ 33,763,143</u>	<u>35,190,048</u>	<u>33,873,651</u>

The largest portion of the Health Center's net position arises from cash and cash equivalents, 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
A Proprietary Fund of Douglas County, Nebraska

Management's Discussion and Analysis
June 30, 2013 and 2012

Revenue, Expenses and Changes in Net Position

The following represents a summary of the Health Center's revenue, expenses and changes in net position for the years ended June 30, 2013, 2012 and 2011:

Summary Statements of Revenue, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:			
Net patient service revenue	\$ 28,946,737	27,862,706	28,076,064
Other	804,857	909,405	979,679
Total operating revenue	<u>29,751,594</u>	<u>28,772,111</u>	<u>29,055,743</u>
OPERATING EXPENSES:			
Long-term care	10,179,567	9,974,012	9,399,528
General services	4,468,164	4,555,924	4,624,500
Ancillary services	5,369,406	6,723,849	8,511,696
Administration services	8,832,320	8,372,660	7,766,254
Assisted living	229,139	205,080	184,509
Dietary services	2,572,111	2,566,288	2,565,376
Psychiatric services	5,612,736	5,640,116	5,454,224
Medical administration	1,195,227	1,218,098	1,159,317
Fiscal services	1,067,299	1,085,735	1,113,841
Departmental expenses	<u>39,525,969</u>	<u>40,341,762</u>	<u>40,779,245</u>
Special purpose fund	32,750	52,502	35,621
Depreciation	1,284,938	1,271,296	1,285,579
Total operating expenses	<u>40,843,657</u>	<u>41,665,560</u>	<u>42,100,445</u>
OPERATING LOSS	(11,092,063)	(12,893,449)	(13,044,702)
NONOPERATING REVENUE	6,607,625	9,175,744	6,811,539
TRANSFERS IN	3,446,050	3,997,238	4,000,000
CHANGE IN NET POSITION	<u>(1,038,388)</u>	<u>279,533</u>	<u>(2,233,163)</u>
NET POSITION, BEGINNING OF YEAR	16,124,033	15,947,998	18,181,161
CHANGE IN ACCOUNTING PRINCIPLE	-	(103,498)	-
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>16,124,033</u>	<u>15,844,500</u>	<u>18,181,161</u>
NET POSITION, END OF YEAR	<u>\$ 15,085,645</u>	<u>16,124,033</u>	<u>15,947,998</u>

In 2013, operating revenue increased \$979,483 and operating expenses decreased \$821,903. This resulted in a 2013 net operating loss of \$11,092,063, which was \$1,801,386 less of a loss than in 2012. In 2012, the net operating loss was \$12,893,449 which was \$151,253 less of a loss than in 2011.

In 2013, the Community Mental Health Clinic (CMHC) inpatient days decreased and outpatient treatments increased. There was an increase in patient days for long-term care and a decrease in patient days for assisted living. Overall case weight for long-term care increased as well as did reimbursement rates. In 2012, 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, in 2012 additional revenue was realized through the Medicaid disproportionate share program.

Management's Discussion and Analysis
June 30, 2013 and 2012

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 2013, 2012 and 2011, an additional appropriation to the adopted budget was appropriated for salary increases. For 2013, operating revenue was budgeted at \$30,836,150 with actual receipts of \$30,139,210. For 2013, expenses were budgeted at \$43,482,019 with actual expenses of \$41,833,449. 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.

ECONOMIC FACTORS AND NEXT YEAR BUDGET

Revenue and expenses are expected to remain at approximately the same level as the prior year. Occupancy rates will fluctuate throughout the year, but overall are expected to remain relatively consistent with the prior year, with similar volatility for revenue. In fiscal year end 2014, the Health Center will be closing its assisted living neighborhood and remodeling that area to provide short term rehabilitation services. Licensure for long-term care will remain at 254 beds.

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
Current assets:		
Cash and cash equivalents	\$ 6,709,483	5,334,596
Receivables -		
Patients, net of allowance for uncollectible accounts of of \$1,363,672 and \$2,050,485 for 2013 and 2012, respectively	6,031,417	6,021,844
Due from other governments	27,664	48,988
Due from Douglas County	225,710	99,421
Taxes, net of allowance for uncollectible accounts of \$16,649 and \$19,857 for 2013 and 2012, respectively	2,675,804	3,766,714
Estimated third-party payor settlements	3,750,000	4,221,710
Prepaid expenses	24,001	11,207
Inventories	172,405	272,174
Assets held for others	261,158	289,564
Total current assets	<u>19,877,642</u>	<u>20,066,218</u>
Noncurrent assets:		
Cash internally designated or restricted	6,203	58,303
Capital assets, net	13,879,298	15,065,527
Total noncurrent assets	<u>13,885,501</u>	<u>15,123,830</u>
Total assets	<u>\$ 33,763,143</u>	<u>35,190,048</u>
LIABILITIES AND DEFERRED INFLOW OF RESOURCES		
Current liabilities:		
Current portion of bonds payable	\$ 545,289	545,289
Accounts payable	995,080	1,034,617
Due to Douglas County	5,566,776	4,792,213
Accrued salaries and benefits payable	2,220,790	2,522,108
Compensated absences	1,261,235	1,273,805
Current portion of accrued claims on self-insured workers' compensation	86,674	115,685
Assets payable to others	261,158	289,564
Total current liabilities	<u>10,937,002</u>	<u>10,573,281</u>
Noncurrent liabilities:		
Accrued claims on self-insured workers' compensation, net of current portion	212,199	419,148
Bonds payable, net of current portion	7,528,297	8,073,586
Total noncurrent liabilities	<u>7,740,496</u>	<u>8,492,734</u>
Total liabilities	<u>18,677,498</u>	<u>19,066,015</u>
NET POSITION		
Net investment in capital assets	5,805,712	6,446,652
Unrestricted	9,279,933	9,677,381
Total net position	<u>15,085,645</u>	<u>16,124,033</u>
Total liabilities and net position	<u>\$ 33,763,143</u>	<u>35,190,048</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Net patient service revenue (net of provision for uncollectible accounts of \$1,137,552 and \$1,379,770 for 2013 and 2012, respectively)	\$ 28,946,737	27,862,706
Other operating revenue	804,857	909,405
Total operating revenue	<u>29,751,594</u>	<u>28,772,111</u>
OPERATING EXPENSES:		
Departmental -		
Long-term care	10,179,567	9,974,012
General services	4,468,164	4,555,924
Ancillary services	5,369,406	6,723,849
Administrative services	8,832,320	8,372,660
Assisted living	229,139	205,080
Dietary services	2,572,111	2,566,288
Psychiatric services	5,612,736	5,640,116
Medical administration	1,195,227	1,218,098
Fiscal services	1,067,299	1,085,735
Nondepartmental -		
Special purpose fund expense	32,750	52,502
Depreciation	1,284,938	1,271,296
Total operating expenses	<u>40,843,657</u>	<u>41,665,560</u>
OPERATING LOSS	<u>(11,092,063)</u>	<u>(12,893,449)</u>
NONOPERATING REVENUE (EXPENSE):		
Property and real estate taxes	6,405,522	8,842,961
State and local funding	426,089	558,619
Investment earnings	1,850	1,321
Loss on disposal of capital assets	-	(178)
Interest expense	(225,836)	(226,979)
Total nonoperating revenue, net	<u>6,607,625</u>	<u>9,175,744</u>
LOSS BEFORE TRANSFERS IN	(4,484,438)	(3,717,705)
TRANSFERS IN	<u>3,446,050</u>	<u>3,997,238</u>
CHANGE IN NET POSITION	(1,038,388)	279,533
NET POSITION, BEGINNING OF YEAR	16,124,033	15,947,998
CHANGE IN ACCOUNTING PRINCIPLE	--	(103,498)
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>16,124,033</u>	<u>15,844,500</u>
NET POSITION, END OF YEAR	<u>\$ 15,085,645</u>	<u>16,124,033</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments for Health Center services	\$ 28,654,409	26,598,573
Payments from Douglas County for Health Center services	826,181	821,237
Other operating cash receipts	628,176	896,961
Cash payments for employee salaries and benefits	(22,134,130)	(20,505,437)
Cash payments to others	(17,154,252)	(18,310,143)
Cash payments from Douglas County	<u>1,816</u>	<u>51,116</u>
Net cash used in operating activities	<u>(9,177,800)</u>	<u>(10,447,693)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	3,446,050	3,997,238
Tax receipts	7,496,432	8,062,809
State and local funding	<u>426,089</u>	<u>558,619</u>
Net cash provided by noncapital financing activities	<u>11,368,571</u>	<u>12,618,666</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset acquisitions	(98,709)	(244,843)
Principal paid on long-term debt	(545,289)	(500,289)
Interest paid on long-term debt	<u>(225,836)</u>	<u>(226,979)</u>
Net cash used in capital and related financing activities	<u>(869,834)</u>	<u>(972,111)</u>
CASH FLOWS FROM INVESTING ACTIVITIES,		
Interest and dividends	<u>1,850</u>	<u>1,321</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,322,787	1,200,183
CASH AND CASH EQUIVALENTS - Beginning of year	<u>5,392,899</u>	<u>4,192,716</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 6,715,686</u>	<u>5,392,899</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:		
Cash and cash equivalents	\$ 6,709,483	5,334,596
Cash internally designated or restricted	<u>6,203</u>	<u>58,303</u>
Total cash	<u>\$ 6,715,686</u>	<u>5,392,899</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (11,092,063)	(12,893,449)
Adjustments to reconcile operating loss to net cash used by operating activities -		
Depreciation	1,284,938	1,271,296
Changes in assets and liabilities -		
Receivables -		
Patients	(9,573)	577,101
Due from other governments	21,324	(12,444)
Due from Douglas County	(126,289)	(42,953)
Estimated third-party payor settlements	471,710	(977,044)
Prepaid expenses	(12,794)	(1,345)
Inventories	99,769	(9,950)
Accounts payable	(39,537)	327,138
Due to Douglas County	774,563	774,926
Accrued salaries and benefits payable	(301,318)	487,375
Compensated absences	(12,570)	69,013
Accrued claims on self-insured workers' compensation	(235,960)	(17,357)
	<u>(9,177,800)</u>	<u>(10,447,693)</u>
Net cash used by operating activities	\$ <u>(9,177,800)</u>	<u>(10,447,693)</u>

See notes to the financial statements

Notes to Financial Statements
June 30, 2013 and 2012

(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 accounting principles generally accepted in the United States of America.

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, 2013 and 2012

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.

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, 2013 and 2012.

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.

Notes to Financial Statements
June 30, 2013 and 2012

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.

Unrestricted – This component of net position consists of net position items that do not meet the definition of “net investment in capital assets”, 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.

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.

Notes to Financial Statements
June 30, 2013 and 2012

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 begins at 3%. 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 No. 63 and No. 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. Subsequent Events

The Health Center considered events occurring through December 27, 2013 for recognition or disclosure of the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Notes to Financial Statements
June 30, 2013 and 2012

(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, 2011.

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

Medicaid - Inpatient 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 80% and 76% of the Health Center's net patient service revenue for the years ended June 30, 2013 and 2012, 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 2013 and 2012, 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 \$2,009,493 and \$1,893,466 in 2013 and 2012, 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue	\$ 30,834,971	29,913,720
Deductions from patient service revenue:		
Estimated Medicare adjustments	(1,470,728)	(1,394,558)
Estimated Medicaid adjustments	716,585	1,020,116
Estimated Medicaid intergovernmental transfer and settlement	3,990,498	3,444,312
Estimated deduction for other billing adjustments	(2,335,360)	(2,152,933)
Estimated deduction for indigent care	<u>(1,651,677)</u>	<u>(1,588,181)</u>
Net patient service revenue (before provision for bad debt)	30,084,289	29,242,476
Provision for bad debt	<u>(1,137,552)</u>	<u>(1,379,770)</u>
Net patient service revenue	<u>\$ 28,946,737</u>	<u>27,862,706</u>

Notes to Financial Statements
June 30, 2013 and 2012

(3) Other Operating Revenue

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

(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, 2013 and 2012, 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 \$261,158 and \$289,564 with total bank balances of \$263,056 and \$294,131 at June 30, 2013 and 2012, 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, 2013 and 2012, all of the Health Center's patient fund bank balances were exposed to custodial credit risk and were collateralized with securities held by pledging financial institution's trust department or agent in the Funds name.

Notes to Financial Statements
June 30, 2013 and 2012

(5) Composition of Patient Receivables

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

	<u>2013</u>	<u>2012</u>
Patient Accounts	\$ 11,360,495	12,106,175
Less estimated third-party contractual adjustments	(3,965,406)	(4,033,846)
Less allowance for uncollectible accounts	<u>(1,363,672)</u>	<u>(2,050,485)</u>
	<u>\$ 6,031,417</u>	<u>6,021,844</u>

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>2013</u>	<u>2012</u>
Medicare/Medicaid	46 %	34 %
Commercial	5	5
Private pay/Pending	<u>49</u>	<u>61</u>
	<u>100 %</u>	<u>100 %</u>

(6) Retirement Plan

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. State statutes require equal contribution by the County and plan members. Both plan members and the County contribute 8.5% of their covered salaries for 2013 and 2012. The Health Center's contribution to the Douglas County Retirement System for the years 2013, 2012 and 2011 were \$1,760,353, \$1,728,379 and \$1,741,862, respectively. Separate audited financial statements for the Plan are not available. Quarterly and annual financial reports and actuarial reports are available on the Employees' Pension Board Web site or from the Insurance & Pension Coordinator, Room 505, Omaha-Douglas Civic Center, 1819 Farnam Street, Omaha, NE 68183. Information on the Plan is also presented in the Comprehensive Annual Financial Report for Douglas County, Nebraska and available at the Douglas County Clerk/Comptroller, 1819 Farnam Street, H08, Omaha NE 68183.

(7) Post-Retirement Healthcare Benefits

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. Due to a successful lawsuit challenge a portion of retirees are still paying at the lower rate. The rates paid by retirees under both 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 45. The OPEB Plan is a single-employer defined benefit healthcare plan administered by the County. Contributions to the plan are based on a pay-as-you-go basis. The OPEB Plan is managed and funded by the County, therefore, the Health Center reflects no expenses related to the OPEB Plan in its statements of revenue, expenses and changes in net position. The OPEB Plan does not issue separate financial statements. Information on the OPEB Plan is presented in the Comprehensive Annual Financial Report for Douglas County, Nebraska and available at the Douglas County Clerk/Comptroller, 1819 Farnam Street, H08, Omaha NE 68183.

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

Notes to Financial Statements
June 30, 2013 and 2012

(8) Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 were as follows:

	June 30, 2012	Additions	Transfers and Disposals	June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 442,000	--	--	442,000
Construction in progress	114,708	--	(114,708)	--
Total capital assets, not being depreciated	<u>556,708</u>	<u>--</u>	<u>(114,708)</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	25,697,870	--	--	25,697,870
Fixed equipment	59,412	--	--	59,412
Moveable equipment	2,706,614	213,417	--	2,920,031
Total capital assets, being depreciated	<u>36,875,880</u>	<u>213,417</u>	<u>--</u>	<u>37,089,297</u>
Less accumulated depreciation:				
Land improvements	(362,077)	--	--	(362,077)
Buildings and fixtures	(8,012,354)	(17,905)	--	(8,030,259)
Building improvements	(11,816,425)	(1,124,947)	--	(12,941,372)
Fixed equipment	(57,644)	(312)	--	(57,956)
Moveable equipment	(2,118,561)	(141,774)	--	(2,260,335)
Total accumulated depreciation	<u>(22,367,061)</u>	<u>(1,284,938)</u>	<u>--</u>	<u>(23,651,999)</u>
Total capital assets, being depreciated, net	<u>14,508,819</u>	<u>(1,071,521)</u>	<u>--</u>	<u>13,437,298</u>
Total capital assets, net	<u>\$ 15,065,527</u>	<u>(1,071,521)</u>	<u>(114,708)</u>	<u>13,879,298</u>
	June 30, 2011	Additions	Transfers and Disposals	June 30, 2012
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>

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

Notes to Financial Statements
June 30, 2013 and 2012

Depreciation expense of \$1,284,938 and \$1,271,296 for 2013 and 2012, 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, 2013 and 2012 is as follows:

	<u>June 30, 2012</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
General Obligation Facility					
Refunding Bonds (A)	\$ 8,615,000	--	(545,000)	8,070,000	545,000
Bond Premium	<u>3,875</u>	<u>--</u>	<u>(289)</u>	<u>3,586</u>	<u>289</u>
	<u>\$ 8,618,875</u>	<u>--</u>	<u>(545,289)</u>	<u>8,073,586</u>	<u>545,289</u>
	<u>June 30, 2011</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
General Obligation Facility					
Refunding Bonds (A)	\$ 9,115,000	--	(500,000)	8,615,000	545,000
Bond Premium	<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>

(A) General Obligation Facility Refunding Bonds had an original issue amount of \$9,115,000, were dated April 5, 2011 and 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 General Obligation Bonds, including interest expense of \$133,943, and pay issuance costs on the 2011 bonds of \$105,293.

In 2012, a change in accounting principle was implemented which adjusted net position for the remainder of the bond issuance costs by \$103,498.

The annual debt service requirements, to maturity, for long term debt as of June 30, 2013, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	580,000	182,613	762,613
2019-2023	3,150,000	644,145	3,794,145
2024-2027	<u>2,115,000</u>	<u>117,289</u>	<u>2,232,289</u>
	<u>\$ 8,070,000</u>	<u>1,782,999</u>	<u>9,852,999</u>

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

Notes to Financial Statements
June 30, 2013 and 2012

(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 \$298,873 and \$534,833 for self-insured losses at June 30, 2013 and 2012, 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, 2012	Additions	Reductions	June 30, 2013	Amounts Due Within One Year
Accrued claims on self-insured workers' compensation	\$ 534,833	544,395	(780,355)	298,873	86,674

	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

(11) Designated Net Position

Of the \$9,279,933 and \$9,677,381 of unrestricted net position reported in 2013 and 2012, respectively, \$6,203 and \$58,303 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.

Notes to Financial Statements
June 30, 2013 and 2012

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. The Foundation received \$130,671 and \$30,975 in contributions and other revenue in the fiscal years ended June 30, 2013 and 2012, respectively. The Foundation had net assets of \$205,189 and \$126,031 at June 30, 2013 and 2012, 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.

**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, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements, and have issued our report thereon, dated December 27, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Item 2013-1, that we consider to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

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

The Health Center's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Spim Johnson, LLP

Omaha, Nebraska,
December 27, 2013.

Schedule of Findings and Responses
For the Year Ended June 30, 2013

Financial Statement Findings

Item 2013-1

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:	The process for management to estimate the allowances for doubtful accounts and contractual allowances that impact the net realizable value of accounts receivable is done only once annually after the fiscal year end.
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. All interim reporting is done on a cash basis during the fiscal year. 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.
Effect:	A client journal entry was made during fieldwork 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.

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

Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2013

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Item 2012-1

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.

Auditee Response: 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.

Status: Finding cleared.