

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

Financial Statements
June 30, 2010 and 2009

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 balance sheets of Douglas County Health Center (Health Center), a Proprietary Fund of Douglas County, Nebraska, as of June 30, 2010 and 2009, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. 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 audit.

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. 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 audit provides 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 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, 2010 and 2009, 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 for the year ended June 30, 2010, a report dated December 21, 2010, 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.

The Management's Discussion and Analysis and Schedules of Funding Progress and Employer Contributions – Douglas County Employees' Retirement Plan and Douglas County Postemployment Benefits on pages 2 through 5 and 25 and 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Revenue and Expenses – Cash Basis, Community Mental Health Center is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
December 21, 2010.

Management's Discussion and Analysis

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, 2010, 2009 and 2008. 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 assets decreased by \$566,358, from 2009 to 2010, and \$3,835,667 from 2008 to 2009. The decrease to 2010 is primarily due to increased health and pension benefit costs, and the decrease to 2009 is primarily due to a change in the determination of the value of accounts receivable. At the end of 2009 as compared to the end of 2008, a larger percentage of the accounts receivable over 120 days old related to psychiatric services which are more likely to be uncollectible than long-term care accounts.
- Operating revenue increased \$3,645,876, from \$30,218,290 in 2010, as compared to \$26,572,414 in 2009. Operating revenue in 2008 was 28,035,301. The increase in 2010 relates to a combination of the changes in mix of patient days and an increase in pharmacy revenue. The decrease in 2009 from 2008 of \$1,462,887 is primarily due to the increase in the provision for uncollectible accounts of \$1,027,170 as highlighted above in the net asset change.
- Operating expenses increased by \$1,931,967, from 2009 to 2010 due to approximate increases in salaries of \$800,000, benefits of \$750,000 and drugs of \$350,000. From 2008 to 2009, operating expenses increased by \$1,741,875 due to approximate increases in salaries of \$700,000, benefits of \$375,000 and drugs of \$850,000.
- This combination of increased revenue and increased expenses resulted in a 2010 operating loss of \$13,493,978 which is \$1,713,909 less of a loss than 2009. In 2008, the operating loss was \$12,003,125.

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 basic financial statements consist of: 1) Balance Sheets; Statements of Revenue, Expenses and Changes in Net Assets and Statements of Cash Flows; 2) Notes to Financial Statements; and 3) Supplemental Information including the Schedules of Revenue and Expenses-Cash Basis, Community Mental Health Center; 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 Hospital Patient Fund Trust Account is included in the balance sheets and is the subject of a separate financial statement.

Management's Discussion and Analysis

Balance Sheets

The balance sheet presents assets and liabilities in order of their relative liquidity. The difference between Assets and Liabilities is called Net Assets. Net assets are further divided into Invested in Capital Assets, Restricted and Unrestricted. A comparison of the year ended June 30, 2010, 2009 and 2008 is:

Summary of Balance Sheets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS:			
Current assets	\$ 18,320,538	17,504,886	21,472,601
Non-current assets	<u>17,706,700</u>	<u>18,860,693</u>	<u>19,493,241</u>
	<u>\$ 36,027,238</u>	<u>36,365,579</u>	<u>40,965,842</u>
LIABILITIES:			
Current liabilities	\$ 8,522,036	7,717,107	7,290,695
Non-current liabilities	<u>9,324,041</u>	<u>9,900,953</u>	<u>11,091,961</u>
	<u>17,846,077</u>	<u>17,618,060</u>	<u>18,382,656</u>
NET ASSETS:			
Invested in capital assets, net of related debt	8,326,320	8,313,688	7,227,387
Restricted net assets	2,379	62,005	226,390
Unrestricted net assets	<u>9,852,462</u>	<u>10,371,826</u>	<u>15,129,409</u>
	<u>18,181,161</u>	<u>18,747,519</u>	<u>22,583,186</u>
	<u>\$ 36,027,238</u>	<u>36,365,579</u>	<u>40,965,842</u>

The largest portion of the Health Center's net assets arise 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.

Management's Discussion and Analysis

Revenue, Expenses and Changes in Net Assets

The following represents a summary of the Health Center's revenues and expenses for the years ended June 30, 2010, 2009 and 2008:

Summary Statement of Revenue, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUE:			
Net patient service revenue	\$ 28,743,636	25,463,902	25,939,338
Other	<u>1,474,654</u>	<u>1,108,512</u>	<u>2,095,963</u>
Total Operating Revenue	<u>30,218,290</u>	<u>26,572,414</u>	<u>28,035,301</u>
OPERATING REVENUE:			
Long-term care	9,764,592	9,431,678	9,142,167
General	4,790,072	4,761,359	4,749,872
Ancillary services	9,528,428	9,136,565	8,348,344
Administration	7,400,863	6,410,610	6,277,558
Assisted living	229,112	257,701	229,940
Dietary	2,657,055	2,572,618	2,435,516
Psychiatric	5,712,466	5,552,219	5,263,781
Medical administration	1,178,895	1,155,335	1,397,237
Fiscal	<u>1,168,259</u>	<u>1,201,647</u>	<u>1,121,129</u>
Departmental Expenses	42,429,742	40,479,732	38,965,544
Special Purpose Fund	23,595	44,275	53,074
Depreciation	<u>1,258,931</u>	<u>1,256,294</u>	<u>1,019,808</u>
Total	<u>43,712,268</u>	<u>41,780,301</u>	<u>40,038,426</u>
Operating Loss	(13,493,978)	(15,207,887)	(12,003,125)
NONOPERATING REVENUE	8,532,620	7,372,220	10,433,611
TRANSFERS IN	<u>4,395,000</u>	<u>4,000,000</u>	<u>4,000,000</u>
CHANGE IN NET ASSETS	(566,358)	(3,835,667)	2,430,486
NET ASSETS, BEGINNING	<u>18,747,519</u>	<u>22,583,186</u>	<u>20,152,700</u>
NET ASSETS, END	\$ <u><u>18,181,161</u></u>	<u><u>18,747,519</u></u>	<u><u>22,583,186</u></u>

In 2010, operating revenue increased \$3,645,876 and operating expenses increased \$1,931,967 resulting in a net operating loss of \$13,493,978 which was \$1,713,909 less of a loss than in 2009. In 2009, the net operating loss was \$15,207,887 which was \$3,204,762 more of a loss than in 2008.

In 2010, CMHC inpatient days and outpatient treatments increased, while there was a decrease in overall patient days for long-term care and assisted living. In 2009, there was a decrease in patient days in the inpatient psychiatric unit and assisted living, but CMHC outpatient treatments decreased from 18,092 to 17,334.

Management's Discussion and Analysis

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 2010, 2009 and 2008, an additional appropriation to the adopted budget was appropriated for salary increases. In 2010, an additional appropriation to the adopted budget was appropriated to assist in the increase expenses realized in the employee benefits and drug categories. For 2010, operating revenue was budgeted at \$30,084,250 with actual receipts of \$28,237,141. For 2010, expenses were budgeted at \$42,266,767 with actual expenses of \$42,220,986.

ECONOMIC FACTORS AND NEXT YEAR BUDGET

Gradual increases in both revenue and expenses are anticipated again in the coming year. Occupancy rates have fluctuated throughout the year. This is expected to continue in the coming year with similar volatility for revenue.

The County has made changes to the employee benefit packages to help alleviate the increases as seen in the prior year.

The State continues to review options to assist it in balancing a budgetary shortfall. These options include decreased payment from the Nebraska 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

Balance Sheets
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,037,902	4,608,639
Receivables -		
Patients, net of allowance for uncollectable accounts of \$1,812,443 and \$1,638,431 for 2010 and 2009, respectively	6,971,733	6,193,642
Due from other governments	40,760	37,939
Due from Douglas County	268,056	67,902
Taxes, net allowance for uncollectable accounts of \$23,166 and \$17,866 for 2010 and 2009, respectively	3,667,987	3,236,017
Estimated third-party payor settlements	3,670,864	2,718,471
Prepaid expenses	18,405	14,751
Inventories	294,683	325,854
Assets held for others	350,148	301,671
Total current assets	<u>18,320,538</u>	<u>17,504,886</u>
Noncurrent assets:		
Cash internally designated or restricted	980,838	2,127,642
Deferred charges	66,542	70,847
Capital assets, net	<u>16,659,320</u>	<u>16,662,204</u>
Total noncurrent assets	<u>17,706,700</u>	<u>18,860,693</u>
Total assets	<u>\$ 36,027,238</u>	<u>36,365,579</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of bonds payable	\$ 425,000	1,180,000
Accounts payable	953,287	640,480
Due to Douglas County	3,397,927	2,546,967
Accrued salaries and benefits payable	2,019,181	1,903,034
Compensated absences	1,218,200	1,105,792
Current portion of accrued claims on self-insured workers' compensation	158,293	39,163
Assets payable to others	350,148	301,671
Total current liabilities	<u>8,522,036</u>	<u>7,717,107</u>
Noncurrent liabilities:		
Accrued claims on self-insured workers' compensation, net of current portion	444,041	595,953
Bonds payable, net of current portion	<u>8,880,000</u>	<u>9,305,000</u>
Total noncurrent liabilities	<u>9,324,041</u>	<u>9,900,953</u>
Total liabilities	<u>17,846,077</u>	<u>17,618,060</u>
Net assets:		
Invested in capital assets, net of related debt	8,326,320	8,313,688
Restricted for debt service	2,379	62,005
Unrestricted	<u>9,852,462</u>	<u>10,371,826</u>
Total net assets	<u>18,181,161</u>	<u>18,747,519</u>
Total liabilities and net assets	<u>\$ 36,027,238</u>	<u>36,365,579</u>

See notes to financial statements

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

Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Net patient service revenue, net of provision for uncollectable accounts of \$1,462,917 and \$2,473,008 for 2010 and 2009, respectively	\$ 28,743,636	25,463,902
Other	1,474,654	1,108,512
	<u>30,218,290</u>	<u>26,572,414</u>
OPERATING EXPENSES:		
Departmental-		
Long-term care	9,764,592	9,431,678
General services	4,790,072	4,761,359
Ancillary services	9,528,428	9,136,565
Administrative services	7,400,863	6,410,610
Assisted living	229,112	257,701
Dietary services	2,657,055	2,572,618
Psychiatric services	5,712,466	5,552,219
Medical administration	1,178,895	1,155,335
Fiscal services	1,168,259	1,201,647
Nondepartmental-		
Special purpose fund expense	23,595	44,275
Depreciation	1,258,931	1,256,294
	<u>43,712,268</u>	<u>41,780,301</u>
Total operating expenses	<u>43,712,268</u>	<u>41,780,301</u>
Operating loss	<u>(13,493,978)</u>	<u>(15,207,887)</u>
NONOPERATING REVENUE (EXPENSE):		
Property and real estate taxes	8,437,288	7,414,905
State and local funding	490,749	433,835
Investment earnings	563	23,074
Contributions	52,424	35,513
Loss on disposal of capital assets	(965)	(30,500)
Amortization of bond issuance costs	(4,305)	(11,295)
Interest expense	(443,134)	(493,312)
	<u>8,532,620</u>	<u>7,372,220</u>
Total nonoperating revenue, net	<u>8,532,620</u>	<u>7,372,220</u>
LOSS BEFORE TRANSFERS IN	(4,961,358)	(7,835,667)
TRANSFERS IN	4,395,000	4,000,000
CHANGE IN NET ASSETS	(566,358)	(3,835,667)
NET ASSETS, BEGINNING OF YEAR	<u>18,747,519</u>	<u>22,583,186</u>
NET ASSETS, END OF YEAR	<u>\$ 18,181,161</u>	<u>18,747,519</u>

See notes to financial statements

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

Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments for Health Center services	\$ 26,031,898	26,552,693
Payments from Douglas County for Health Center services	781,100	1,219,443
Other operating cash receipts	1,471,833	1,103,450
Cash payments to employees	(21,333,486)	(20,663,368)
Cash payments to others	(20,129,500)	(19,041,458)
Cash received from (payments to) Douglas County	347,060	(178,760)
	<u>(12,831,095)</u>	<u>(11,008,000)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers	4,395,000	4,000,000
Tax receipts	8,005,318	8,157,646
State and local funding	490,749	433,835
	<u>12,891,067</u>	<u>12,591,481</u>
CASH FLOWS FORM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Asset acquisition	(1,207,366)	(1,098,105)
Contributions	52,424	35,513
Principal paid on capital debt	(1,180,000)	(1,135,000)
Interest paid on capital debt	(443,134)	(493,312)
	<u>(2,778,076)</u>	<u>(2,690,904)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends	563	23,074
	<u>(2,717,541)</u>	<u>(1,084,349)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,717,541)	(1,084,349)
CASH AND CASH EQUIVALENTS - Beginning of year	6,736,281	7,820,630
CASH AND CASH EQUIVALENTS - End of year	\$ 4,018,740	6,736,281
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:		
Cash and cash equivalents	\$ 3,037,902	4,608,639
Cash internally designated or restricted	980,838	2,127,642
Total cash	<u>\$ 4,018,740</u>	<u>6,736,281</u>

See notes to financial statements

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

Statements of Cash Flows (continued)
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (13,493,978)	(15,207,887)
Adjustments to reconcile operating loss to net cash used by operating activities-		
Depreciation	1,258,931	1,256,294
Changes in assets and liabilities		
Receivables-		
Patients	(966,713)	2,402,564
Due from other governments	(2,821)	(5,062)
Due from Douglas County	(11,532)	255,040
Estimated third-party payor settlements	(952,393)	(349,370)
Prepaid expenses	(3,654)	4,262
Inventories	31,171	(880)
Accounts payable	263,161	(124,290)
Due to Douglas County	850,960	496,718
Accrued salaries and benefits payable	116,147	181,611
Compensated absences	112,408	96,616
Accrued claims on self-insured workers' compensation	<u>(32,782)</u>	<u>(13,616)</u>
Net cash used in operating activities	<u>\$ (12,831,095)</u>	<u>(11,008,000)</u>

See notes to financial statements

Notes to Financial Statements
June 30, 2010 and 2009

(1) Summary of Significant Accounting Policies

The following 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 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 comprising of the following:

- Assisted Living – 24 beds
- Skilled Nursing (long-term care) – 258 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 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.

The Community Mental Health Center (CMHC) operates within the Health Center facility and is included in the financial statements of the Health Center. The CMHC operates the acute psychiatric beds, psychiatric outpatient services, a partial hospitalization program and a mental health diversions program. The 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.

B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the 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, compliance with laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Notes to Financial Statements
June 30, 2010 and 2009

C. Financial Statements

The Health Center presents its financial statements using enterprise fund reporting. Enterprise funds are required to account for operations for which a fee is charged to external users for goods or services. Enterprise fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows.

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 are 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 has the option to apply FASB statements and interpretations issued after that date, the Health Center has chosen not to do so.

These financial statements present the Health Center, a Proprietary Fund of the County. They do not purport to, and do not, present fairly the financial position of the County, as of June 30, 2010 and 2009, and the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

E. 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.

F. 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.

G. 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.

H. 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.

I. 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, 2010 and 2009.

Notes to Financial Statements
June 30, 2010 and 2009

J. 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.

K. 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.

L. 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.

M. Net Assets

Net asset classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any outstanding liabilities that are attributable to the acquisition, construction or improvement of those assets.

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

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

N. 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.

O. 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.

P. 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. 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.

Q. Patient Resources

Included in the Health Center's balance sheet, 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.

R. Operating Revenue and Expenses

The Health Center's statements of revenue, expenses and changes in net assets 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.

S. Subsequent Events

The Health Center considered events occurring through December 31, 2010 for recognition or disclosure of the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(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, 2009.

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.

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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 66% of the Health Center's net patient service revenue for the years ended June 30, 2010 and 2009, 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. The 2010 and 2009 net patient service revenue increased approximately \$110,000 and \$790,000, respectively, due to the receipt of settlements that were higher than previously estimated as a result of final settlements.

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 \$1,232,621 and \$1,791,952 in 2010 and 2009, 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 31,545,171	32,713,812
Deductions from patient service revenue:		
Estimated Medicare adjustments	(431,793)	(1,726,001)
Estimated Medicaid adjustments	3,378,298	4,230,485
Estimated Medicaid intergovernmental transfer settlement	3,670,864	3,028,637
Estimated deduction for other billing adjustments	(4,798,972)	(7,658,914)
Estimated deduction for indigent care	<u>(3,157,015)</u>	<u>(2,651,109)</u>
Net patient service revenue (before provision for bad debt)	30,206,553	27,936,910
Provision for bad debt	<u>(1,462,917)</u>	<u>(2,473,008)</u>
Net patient service revenue	<u>\$ 28,743,636</u>	<u>25,463,902</u>

(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.

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Deposits

For the purposes of classifying categories of custodial risk, the bank balances of the County's deposits as of June 30, 2010 and 2009, 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 \$350,148 and \$301,671 with total bank balances of \$342,722 and \$331,020 at June 30, 2010 and 2009, 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, 2010 and 2009, \$342,722 and \$331,020, 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 \$400,000.

(5) Composition of Patient Receivables

Patient receivables as of June 30, 2010 and 2009, consist of the following:

	<u>2010</u>	<u>2009</u>
Patient accounts	\$ 15,196,420	13,676,406
Less estimated third-party contractual adjustments	(6,412,244)	(5,844,333)
Less allowance for uncollectible accounts	<u>(1,812,443)</u>	<u>(1,638,431)</u>
	<u>\$ 6,971,733</u>	<u>6,193,642</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>2010</u>	<u>2009</u>
Medicare/Medicaid	29%	19%
Commercial	2%	3%
Private pay/Pending	<u>69%</u>	<u>78%</u>
	<u>100%</u>	<u>100%</u>

Notes to Financial Statements
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(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, 2010, the date of the latest actuarial valuation, is as follows:

	<u>2010</u>	<u>2009</u>
Retirees and beneficiaries receiving benefits	999	982
Terminated Plan members entitled to but not yet receiving benefits	84	82
Disabled participants	<u>31</u>	<u>30</u>
	<u>1,114</u>	<u>1,094</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, 2009. Plan assets are reported on a calendar year basis, the most recent being December 31, 2009 and 2008.

Valuation date	January 1, 2009
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, 2009
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increase	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 year ended December 31, 2009, are as follows:

		<u>2010</u>	<u>2009</u>
Annual Required Contribution (ARC)	\$	16,959,566	15,298,146
Employee contribution		<u>(9,657,643)</u>	<u>(8,762,361)</u>
Employer annual required contribution		7,301,923	6,535,785
Interest on net pension assets		364,792	513,251
Adjustment to annual required contribution		<u>(210,089)</u>	<u>(295,588)</u>
Annual pension cost		7,456,626	6,753,448
Contributions made		<u>(9,633,701)</u>	<u>(8,732,900)</u>
Decrease in the net pension obligation		(2,177,075)	(1,979,452)
Net pension obligation, beginning of year		<u>4,863,895</u>	<u>6,843,347</u>
Net pension obligation, end of year	\$	<u><u>2,686,820</u></u>	<u><u>4,863,895</u></u>

The net pension liability of \$2,686,820 and \$4,863,895, as of December 31, 2009 and 2008, 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 2009, 2008 and 2007, are as follows:

Year Ending December 31:		Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2009	\$	7,456,626	129.2%	2,686,820
2008		6,753,448	129.3%	4,863,895
2007		6,573,864	115.8%	6,843,347

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.

(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, 2010, the County contributed \$2,167,694 net of retiree contributions for 255 out of a total of 1114 retirees, in addition to their covered dependents. Retiree contributions increased half way through the fiscal year. Retiree contributions for 2010 were \$438,602. This is 21.6% 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>2010</u>	<u>2009</u>
Annual OPEB cost	\$ 5,507,142	6,000,839
Contributions made	<u>(2,606,297)</u>	<u>(2,454,997)</u>
Increase in OPEB obligation	2,900,845	3,545,842
Net OPEB obligation - beginning of year	<u>7,482,765</u>	<u>3,936,923</u>
Net OPEB obligation - end of year	<u>\$ 10,383,610</u>	<u>7,482,765</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligations for 2010, 2009 and 2008, are as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u>
June 30, 2010	5,507,142	47.3%	10,383,610
June 30, 2009	6,000,839	40.9%	7,482,765
June 30, 2008	6,071,035	35.2%	3,936,923

E. Funding Status and Funding Progress

As of July 1, 2009, the initial and most recent actuarial valuation date, the OPEB Plan is 0% funded. The actuarial accrued liability for the benefits is \$51,766,886. The value of the OPEB Plan assets is \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$51,766,877. The ratio of UAAL to covered payroll was 47.3%.

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, 2009 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, 2009, an annual healthcare cost trend of 5.83% initially, reduced by increments to an ultimate rate of 4.73% 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, 2010 and 2009, were as follows:

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 442,000	--	--	442,000
Construction in process	23,355	1,096,467	(784,449)	335,373
Total capital assets, not being depreciated	<u>465,355</u>	<u>1,096,467</u>	<u>(784,449)</u>	<u>777,373</u>
Capital assets, being depreciated:				
Land improvements	362,077	--	--	362,077
Building and fixtures	8,079,194	--	(29,287)	8,049,907
Building improvements	23,848,425	784,449	--	24,632,874
Fixed equipment	60,127	--	--	60,127
Moveable equipment	2,626,214	160,545	(148,639)	2,638,120
Total capital assets, being depreciated	<u>34,976,037</u>	<u>944,994</u>	<u>(177,926)</u>	<u>35,743,105</u>
Less accumulated depreciation:				
Land improvements	(362,077)	--	--	(362,077)
Building and fixtures	(7,974,910)	(28,509)	29,287	(7,974,132)
Building improvements	(8,464,701)	(1,096,108)	--	(9,560,809)
Fixed equipment	(57,281)	(407)	--	(57,688)
Moveable equipment	(1,920,219)	(133,907)	147,674	(1,906,452)
Total accumulated depreciation	<u>(18,779,188)</u>	<u>(1,258,931)</u>	<u>176,961</u>	<u>(19,861,158)</u>
Total capital assets, being depreciated, net	<u>16,196,849</u>	<u>(313,937)</u>	<u>(965)</u>	<u>15,881,947</u>
Total capital assets, net	<u>\$ 16,662,204</u>	<u>782,530</u>	<u>(785,414)</u>	<u>16,659,320</u>
	June 30, 2008	Additions	Transfers and Disposals	June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 442,000	--	--	442,000
Construction in process	300,594	--	(277,239)	23,355
Total capital assets, not being depreciated	<u>742,594</u>	<u>--</u>	<u>(277,239)</u>	<u>465,355</u>
Capital assets, being depreciated:				
Land improvements	362,077	--	--	362,077
Building and fixtures	8,079,194	--	--	8,079,194
Building improvements	21,786,770	2,061,655	--	23,848,425
Fixed equipment	60,127	--	--	60,127
Moveable equipment	2,651,324	146,327	(171,437)	2,626,214
Total capital assets, being depreciated	<u>32,939,492</u>	<u>2,207,982</u>	<u>(171,437)</u>	<u>34,976,037</u>
Less accumulated depreciation:				
Land improvements	(362,077)	--	--	(362,077)
Building and fixtures	(7,929,973)	(44,937)	--	(7,974,910)
Building improvements	(7,363,520)	(1,101,181)	--	(8,464,701)
Fixed equipment	(56,874)	(407)	--	(57,281)
Moveable equipment	(1,951,387)	(109,769)	140,937	(1,920,219)
Total accumulated depreciation	<u>(17,663,831)</u>	<u>(1,256,294)</u>	<u>140,937</u>	<u>(18,779,188)</u>
Total capital assets, being depreciated, net	<u>15,275,661</u>	<u>951,688</u>	<u>(30,500)</u>	<u>16,196,849</u>
Total capital assets, net	<u>\$ 16,018,255</u>	<u>951,688</u>	<u>(307,739)</u>	<u>16,662,204</u>

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Depreciation expense of \$1,258,931 and \$1,256,294 for 2010 and 2009, respectively, is included in the accompanying statements of revenue, expenses and changes in net assets.

(9) Long-Term Debt

A summary of long-term debt obligations at June 30, 2010 and 2009, is as follows:

	June 30, 2009	Borrowings	Payments	June 30, 2010	Due Within One Year
General Obligation Facility Refunding Bonds (A)	\$ 770,000	--	770,000	--	--
General Obligation Bonds (B)	9,715,000	--	410,000	9,305,000	425,000
	<u>\$ 10,485,000</u>	<u>--</u>	<u>1,180,000</u>	<u>9,305,000</u>	<u>425,000</u>
	June 30, 2008	Borrowings	Payments	June 30, 2009	Due Within One Year
General Obligation Facility Refunding Bonds (A)	\$ 1,505,000	--	735,000	770,000	770,000
General Obligation Bonds (B)	10,115,000	--	400,000	9,715,000	410,000
	<u>\$ 11,620,000</u>	<u>--</u>	<u>1,135,000</u>	<u>10,485,000</u>	<u>1,180,000</u>

The terms and due dates of the Health Center's long-term debt at June 30, 2010, are as follows:

- (A) General obligation Facility Refunding Bonds, original issue amount of \$5,790,000 dated April 4, 2001, were issued by the County of Douglas, Nebraska. The bonds bear an interest rate of 5.00% with final maturity dated July 1, 2010.
- (B) 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, 2025.

The annual debt service requirements, to maturity, for long term debt as of June 30, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 425,000	391,579	816,579
2012	440,000	376,438	816,438
2013	455,000	360,324	815,324
2014	475,000	342,520	817,520
2015	490,000	322,914	812,914
2016-2020	2,790,000	1,288,095	4,078,095
2021-2025	3,440,000	608,881	4,048,881
2026-2027	790,000	18,763	808,763
	<u>\$ 9,305,000</u>	<u>3,709,514</u>	<u>13,014,514</u>

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(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 \$500,000, with first dollar coverage for physician malpractice.

The County is self-insured up to \$750,000 per occurrence for worker's compensation risks and up to \$350,000 per occurrence for general risks.

The Health Center has accrued liabilities of \$602,334 and \$635,116 for self-insured losses at June 30, 2010 and 2009, 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.

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Amounts Due Within One Year</u>
Accrued claims on self-insured workers' compensation	\$ 635,116	142,643	(175,425)	602,334	158,293
	<u>635,116</u>	<u>142,643</u>	<u>(175,425)</u>	<u>602,334</u>	<u>158,293</u>

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>Amounts Due Within One Year</u>
Accrued claims on self-insured workers' compensation	\$ 648,732	79,351	(92,967)	635,116	39,163
	<u>648,732</u>	<u>79,351</u>	<u>(92,967)</u>	<u>635,116</u>	<u>39,163</u>

(11) Commitments

The Health Center renovations are still proceeding. Current projects are elevator upgrades and generator and boiler replacements. As of June 30, 2010, \$1,092,371 has been paid on these projects with a remaining commitment of \$853,844.

(12) Contingencies

A. Federal Financial Assistance

The County 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 is involved in other legal actions whereby certain parties are making claims for damages. Management believes the outcome of these proceedings will not have material financial impact on the Health Center.

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.

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

Notes to Financial Statements
June 30, 2010 and 2009

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 \$260,627 and \$303,357 in contributions and other revenue in the fiscal years ended June 30, 2010 and 2009, respectively. The Foundation had net assets of \$127,182 and \$130,656 at June 30, 2010 and 2009, respectively.

In 2010, the Foundation financed the renovation of a handicapped accessible restroom which was recorded as a fixed asset on the Health Center financials. Other 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
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Schedule of Revenue and Expenses – Cash Basis
Community Mental Health Center
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Net patient service revenue	\$ 4,741,802	4,695,247
Region 6 Mental Health Block Grant	<u>1,232,621</u>	<u>1,791,952</u>
Total Operating Revenue	5,974,423	6,487,199
OPERATING EXPENSES		
Departmental		
Community Mental Health	<u>13,651,822</u>	<u>13,284,577</u>
Operating Loss	<u>\$ (7,677,399)</u>	<u>(6,797,378)</u>

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UALL) (b-a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / (c)
January 1, 2009	\$ 167,993,744	290,126,529	122,132,785	58%	100,942,542	120.99%
January 1, 2008	177,833,982	270,350,586	92,516,604	66%	97,663,283	94.73%
January 1, 2007	165,309,144	248,985,748	83,676,604	66%	91,592,577	91.36%
January 1, 2006	151,686,147	239,601,938	87,915,791	63%	88,892,199	98.90%
January 1, 2005	142,402,678	221,641,517	79,238,839	64%	92,503,782	85.66%
January 1, 2004	132,768,961	204,952,080	72,183,119	65%	82,282,848	87.73%
January 1, 2003	125,237,848	188,697,118	63,459,270	66%	77,182,693	82.22%
January 1, 2002	126,336,366	172,614,945	46,278,579	73%	73,455,551	63.00%

Schedule of Employer Contributions

Year Ended December 31:	Annual Required Contribution (ARC)	Employer Contributions	Percentage of ARC Contributed
2009	16,959,566	9,633,701	57%
2008	15,298,146	8,732,900	57%
2007	13,938,599	7,610,133	55%
2006	13,838,061	6,104,148	44%
2005	13,125,204	5,205,786	40%
2004	11,833,305	4,856,883	41%
2003	10,713,796	4,672,684	44%
2002	9,535,459	4,437,684	47%

Douglas County Health Center
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Required Supplementary Information – Unaudited
Schedule of Funding Progress and Employer Contributions
Douglas County Postemployment Benefits

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
July 1, 2009	--	51,766,877	51,766,877	0.0%	108,948,674	47.5%
July 1, 2008	--	--	--	--	--	--
July 1, 2007	--	56,895,886	56,895,886	0.0%	93,696,887	60.7%
July 1, 2006	n/a	n/a	n/a	n/a	n/a	n/a

Schedule of Employer Contributions

Year Ended December 31:	Annual Required Contribution (ARC)	Employer Contributions	Percentage of ARC Contributed
June 30, 2010	\$ 5,640,560	2,606,297	46.2%
June 30, 2009	6,000,839	2,454,997	40.9%
June 30, 2008	6,071,035	2,134,111	35.2%
June 30, 2007	n/a	n/a	n/a

Governmental Accounting Standards Board Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, was adopted on July 1, 2007 and, therefore, information prior to 2008 is not available. GASB 45 is now included in section P50 of the new GASB Codification.

**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, 2010, and have issued our report thereon, dated December 21, 2010. 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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses, items 2010-01 and 2010-02, to be material weaknesses.

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*.

We also noted certain additional matters that were reported to management of the Health Center in a separate letter dated December 21, 2010.

The Health Center's responses 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 responses and, accordingly, we express no opinion on them.

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.

Sprim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
December 21, 2010.

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

Schedule of Findings and Responses
June 30, 2010

Item 2010-1

Material Weakness:

Criteria:	The design or operation of the Health Center's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
Condition:	We identified misstatements in the financial statements during the audit that were not initially identified by the Health Center's internal controls.
Cause:	The process used by management to estimate third-party payor settlements and allowances for uncollectible accounts receivable from third-party payors, patients and others did not contain appropriate detail to accurately compute reliable estimates of the net realizable value of the Health Center's patient accounts receivable.
Effect:	Audit entries were required to adjust management's estimates of third-party payor settlements and the net realizable value of patient accounts receivable.
Recommendation:	Appropriate detail is needed to accurately estimate third-party payor settlements and allowances for uncollectible accounts receivable. Management performs a yearly estimate of these financial statement items. A more detailed approach may prevent the need for any potential year-end adjustments. We recommend that management review their current estimation process in these areas and create a more detailed approach to enhance the accuracy of these estimates.
Views of Responsible Officials and Planned Corrective Action:	Management will enhance its estimation process to more accurately recognize third-party payor settlements and allowances for uncollectible accounts receivable.
Conclusion	Response accepted.

Item 2010-2

Material Weakness:

Criteria:	The design or operation of the Health Center's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
Condition:	We identified misstatements in the financial statements during the audit that were not initially identified by the Health Center's internal controls.
Cause:	Fiscal year activity was recorded in the general ledger on a cash basis of accounting. Accrual entries are made subsequent to fiscal year end. Patient service revenue relating to the final month of the fiscal year was not entirely recorded in the general ledger via the accrual entries even though all requirements to recognize revenue based on generally accepted accounting principles had been met.
Effect:	An adjusting entry was required to recognize earned revenue and properly state patient receivables.
Recommendation:	We recommend management implement additional procedures to ensure all revenue earned is recorded in its general ledger at fiscal year end.
Views of Responsible Officials and Planned Corrective Action:	Management will assess their current method of recognizing revenue and implement measures to ensure revenue is recognized and recorded on an accrual basis as required by generally accepted accounting principles.
Conclusion:	Response accepted.

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

Prior Year Audit Findings
June 30, 2010

There are no prior year audit findings which are not reported as part of the current year audit findings.