

Douglas County Health Center

A proprietary fund of Douglas County, Nebraska
Omaha, Nebraska

**Financial Statements and Required
Supplementary Information
June 30, 2016 and 2015**

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:

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, 2016 and 2015, 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, 2016 and 2015, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

As described in Note 1, the accompanying financial statements present only the Health Center and is not intended to present fairly the financial position of Douglas County, Nebraska, as of June 30, 2016 and 2015, or the changes to its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of the Health Center's proportionate share of the net pension liability, and the schedule of Health Center contributions on pages 3 through 6 and 25 through 26 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 9, 2016, 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 and compliance.

Spim Johnson, LLP

Omaha, Nebraska,
December 9, 2016.

Douglas County Health Center
A proprietary fund of Douglas County, Nebraska

Management's Discussion and Analysis
June 30, 2016 and 2015

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, 2016 and 2015. 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 \$501,744 from 2015 to 2016 and decreased \$22,659,492 from 2014 to 2015. The decrease in 2016 is primarily due to increased total operating revenue, property and real estate revenue and capital contributions offset by increased total operating expenses and decreased transfers in. The decrease in 2015 is primarily due to the requirement to record net pension liability under GASB No. 68 which is explained in this report.
- Operating revenue increased \$595,854 to \$30,533,064 in 2016, as compared to, \$29,937,210 in 2015. Operating revenue in 2014 was \$28,329,457. The increase in 2016 relates to an increase in patient mix and an increase in patient volume. The increase in 2015 relates to an increase in patient mix offset by a slight decrease in patient volume.
- From 2015 to 2016, operating expenses increased \$2,550,425 due to increased health insurance and information technology costs, long-term care, psychiatric services and medical administration costs. From 2014 to 2015, operating expenses increased \$3,310,028 primarily due to the requirement to record net pension liability under GASB No. 68 which is explained in this report, the increase in workers compensation costs, health insurance costs and long-term care costs.
- This combination of increased revenue and increased expenses resulted in a 2016 operating loss of \$16,340,483 which is \$1,954,571 more of a loss than in 2015. In 2014, the operating loss was \$12,683,637.

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
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Management's Discussion and Analysis
June 30, 2016 and 2015

Statements of Net Position

The statement of net position presents assets, deferred outflows of resources, liabilities and deferred inflows of resources in order of their relative liquidity. The difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources is called net position. Net position is further divided into net investment in capital assets and unrestricted. A comparison of the years ended June 30, 2016, 2015 and 2014 is:

Condensed Statements of Net Position

	<u>2016</u>	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
ASSETS:			
Current	\$ 25,005,003	23,515,676	19,599,059
Non-current	<u>12,984,897</u>	<u>13,313,442</u>	<u>13,610,074</u>
TOTAL ASSETS	<u>37,989,900</u>	<u>36,829,118</u>	<u>33,209,133</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>4,405,001</u>	<u>1,792,558</u>	--
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 42,394,901</u>	<u>38,621,676</u>	<u>33,209,133</u>
LIABILITIES:			
Current	\$ 14,883,542	13,451,111	12,126,850
Non-current	<u>36,745,572</u>	<u>34,000,483</u>	<u>7,397,648</u>
TOTAL LIABILITIES	<u>51,629,114</u>	<u>47,451,594</u>	<u>19,524,498</u>
DEFERRED INFLOWS OF RESOURCES	<u>242,388</u>	<u>144,939</u>	--
NET POSITION:			
Net investment in capital assets	6,557,037	6,325,551	6,073,737
Unrestricted	<u>(16,033,638)</u>	<u>(15,300,408)</u>	<u>7,610,898</u>
TOTAL NET POSITION	<u>(9,476,601)</u>	<u>(8,974,857)</u>	<u>13,684,635</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 42,394,901</u>	<u>38,621,676</u>	<u>33,209,133</u>

The largest portion of the Health Center's total assets arises from cash and cash equivalents, taxes receivable, 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. In 2016, the deferred outflows of resources increased \$2,612,443 due to the increase in the net pension liability under GASB 68. In 2015, deferred outflows of resources increased \$1,792,558 due to the impact of GASB 68 implementation which is explained further in this report.

In 2016, the total liabilities increased by \$4,177,520. The majority of this change was due to an increase in the net pension liability under GASB 68. In 2015, the total liabilities increased by \$27,927,096. The majority of this change was a result of the requirement to record net pension liability under GASB No. 68 which is explained further in this report.

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Management's Discussion and Analysis
June 30, 2016 and 2015

Operating Results and Changes in the Health Center's Net Position

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$24,315,529 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

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, 2016, 2015 and 2014:

Condensed Statements of Revenue, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
OPERATING REVENUE:			
Net patient service revenue	\$ 29,800,197	29,427,860	27,680,874
Other	732,867	509,350	648,583
Total operating revenue	<u>30,533,064</u>	<u>29,937,210</u>	<u>28,329,457</u>
OPERATING EXPENSES:			
Long-term care	11,213,055	10,755,467	10,253,086
General services	4,609,087	4,582,995	4,584,296
Ancillary services	5,778,040	5,918,963	5,541,030
Administrative services	11,707,489	10,689,525	8,688,523
Dietary services	2,698,050	2,639,727	2,493,111
Psychiatric services	6,633,986	5,988,641	5,823,004
Medical administration	1,690,456	1,322,595	1,311,135
Fiscal services	1,363,314	1,213,615	1,044,132
Departmental expenses	<u>45,693,477</u>	<u>43,111,528</u>	<u>39,738,317</u>
Depreciation	1,176,641	1,208,841	1,274,777
Loss on disposal of capital assets	3,429	2,753	--
Total operating expenses	<u>46,873,547</u>	<u>44,323,122</u>	<u>41,013,094</u>
OPERATING LOSS	(16,340,483)	(14,385,912)	(12,683,637)
NONOPERATING REVENUE	12,499,741	11,999,738	7,182,141
CAPITAL CONTRIBUTIONS AND TRANSFERS IN	<u>3,338,998</u>	<u>4,042,210</u>	<u>4,100,486</u>
CHANGE IN NET POSITION	(501,744)	1,656,036	(1,401,010)
NET POSITION, BEGINNING OF YEAR	<u>(8,974,857)</u>	<u>(10,630,893)</u>	<u>15,085,645</u>
NET POSITION, END OF YEAR	<u>\$ (9,476,601)</u>	<u>(8,974,857)</u>	<u>13,684,635</u>

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Management's Discussion and Analysis
June 30, 2016 and 2015

In 2016, operating revenue increased \$595,854 and operating expenses increased \$2,550,425. This resulted in a 2016 net operating loss of \$16,340,483, which was \$1,954,571 more of a loss than in 2015. In 2015, the net operating loss was \$14,385,912 which was \$1,702,275 more of a loss than in 2014.

In 2016, the Community Mental Health Clinic (CMHC) inpatient days stayed relatively consistent, and outpatient treatments decreased. There was a slight increase in patient days for long-term care. The overall case weight increased for long-term care as well as the Medicaid reimbursement rate. In 2015, CMHC inpatient days decreased and outpatient treatments decreased slightly. There was a slight decrease in patient days for long-term care. The overall case weight increased for long-term care, while Medicaid reimbursement rates decreased.

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 2.00% 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 2016, 2015 and 2014, an additional appropriation to the adopted budget was appropriated for salary increases. For 2016, operating revenue was budgeted at \$32,547,821 with actual receipts of \$30,019,010. For 2016, expenses were budgeted at \$46,992,564 with actual expenses of \$45,317,688. For 2015, operating revenue was budgeted at \$30,674,954 with actual receipts of \$29,959,817. For 2015, expenses were budgeted at \$44,682,718 with actual expenses of \$43,143,146.

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. Licensure for long-term care is expected to 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
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Statements of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,888,657	10,077,647
Receivables -		
Patients, net of allowance for uncollectible accounts of of \$456,966 and \$630,382 for 2016 and 2015, respectively	4,306,426	4,428,532
Due from other governments	81,783	30,446
Due from Douglas County	192,237	175,798
Taxes, net of allowance for uncollectible accounts of \$15,230 and \$15,682 for 2016 and 2015, respectively	4,931,879	4,802,313
Estimated third-party payor settlements	4,200,000	3,609,239
Prepaid expenses	17,533	18,481
Inventories	159,956	172,531
Assets held for others	226,532	200,689
Total current assets	<u>25,005,003</u>	<u>23,515,676</u>
Noncurrent assets:		
Cash internally designated or restricted	10,141	9,883
Capital assets, net	12,974,756	13,303,559
Total noncurrent assets	<u>12,984,897</u>	<u>13,313,442</u>
Total assets	37,989,900	36,829,118
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	4,405,001	1,792,558
Total assets and deferred outflows of resources	<u>\$ 42,394,901</u>	<u>38,621,676</u>
LIABILITIES		
Current liabilities:		
Current portion of bonds payable	\$ 570,289	560,289
Accounts payable	1,586,807	1,208,559
Due to Douglas County	7,946,448	7,139,751
Accrued salaries and benefits payable	2,781,633	2,602,993
Compensated absences	1,377,397	1,360,314
Current portion of accrued claims on self-insured workers' compensation	394,436	378,516
Assets payable to others	226,532	200,689
Total current liabilities	<u>14,883,542</u>	<u>13,451,111</u>
Noncurrent liabilities:		
Accrued claims on self-insured workers' compensation, net of current portion	905,615	821,596
Bonds payable, net of current portion	5,847,430	6,417,719
Net pension liability	29,992,527	26,761,168
Total noncurrent liabilities	<u>36,745,572</u>	<u>34,000,483</u>
Total liabilities	<u>51,629,114</u>	<u>47,451,594</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	242,388	144,939
NET POSITION		
Net investment in capital assets	6,557,037	6,325,551
Unrestricted	(16,033,638)	(15,300,408)
Total net position	<u>(9,476,601)</u>	<u>(8,974,857)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 42,394,901</u>	<u>38,621,676</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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUE:		
Net patient service revenue (net of provision for uncollectible accounts of \$420,279 and \$347,592 for 2016 and 2015, respectively)	\$ 29,800,197	29,427,860
Other operating revenue	732,867	509,350
Total operating revenue	<u>30,533,064</u>	<u>29,937,210</u>
OPERATING EXPENSES:		
Departmental -		
Long-term care	11,213,055	10,755,467
General services	4,609,087	4,582,995
Ancillary services	5,778,040	5,918,963
Administrative services	11,707,489	10,689,525
Dietary services	2,698,050	2,639,727
Psychiatric services	6,633,986	5,988,641
Medical administration	1,690,456	1,322,595
Fiscal services	1,363,314	1,213,615
Nondepartmental -		
Depreciation	1,176,641	1,208,841
Loss on disposal of capital assets	3,429	2,753
Total operating expenses	<u>46,873,547</u>	<u>44,323,122</u>
OPERATING LOSS	<u>(16,340,483)</u>	<u>(14,385,912)</u>
NONOPERATING REVENUE (EXPENSE):		
Property and real estate taxes	11,975,055	11,523,823
State and local funding	729,475	688,284
Investment earnings	258	1,843
Interest expense	(205,047)	(214,212)
Total nonoperating revenue, net	<u>12,499,741</u>	<u>11,999,738</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS IN	(3,840,742)	(2,386,174)
CAPITAL CONTRIBUTIONS	338,998	42,210
TRANSFERS IN	<u>3,000,000</u>	<u>4,000,000</u>
CHANGE IN NET POSITION	(501,744)	1,656,036
NET POSITION, beginning of year	<u>(8,974,857)</u>	<u>(10,630,893)</u>
NET POSITION, end of year	<u>\$ (9,476,601)</u>	<u>(8,974,857)</u>

See notes to the financial statements

Douglas County Health Center
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Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments for Health Center services	\$ 28,931,933	29,024,397
Payments from Douglas County for Health Center services	681,530	506,843
Other operating cash receipts	383,170	424,073
Cash payments for employee salaries and benefits	(23,285,391)	(21,499,845)
Cash payments to others	(20,105,805)	(19,029,572)
Cash payments to Douglas County	<u>(598,156)</u>	<u>(49,587)</u>
Net cash used in operating activities	<u>(13,992,719)</u>	<u>(10,623,691)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	3,000,000	4,000,000
Tax receipts	11,845,489	9,704,885
State and local funding	<u>729,475</u>	<u>688,284</u>
Net cash provided by noncapital financing activities	<u>15,574,964</u>	<u>14,393,169</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital asset acquisitions	(5,899)	(870,909)
Principal paid on bonds payable	(560,289)	(550,289)
Interest paid on bonds payable	<u>(205,047)</u>	<u>(214,212)</u>
Net cash used in capital and related financing activities	<u>(771,235)</u>	<u>(1,635,410)</u>
CASH FLOWS FROM INVESTING ACTIVITIES,		
Investment earnings	<u>258</u>	<u>1,843</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	811,268	2,135,911
CASH AND CASH EQUIVALENTS - beginning of year	<u>10,087,530</u>	<u>7,951,619</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 10,898,798</u>	<u>10,087,530</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION,		
Noncash capital contributions received	<u>\$ 338,998</u>	<u>42,210</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO THE STATEMENT OF NET POSITION:		
Cash and cash equivalents	\$ 10,888,657	10,077,647
Cash internally designated or restricted	<u>10,141</u>	<u>9,883</u>
Total cash	<u>\$ 10,898,798</u>	<u>10,087,530</u>

See notes to the financial statements

Douglas County Health Center
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Statements of Cash Flows (continued)
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (16,340,483)	(14,385,912)
Adjustments to reconcile operating loss to net cash used in operating activities -		
Depreciation	1,176,641	1,208,841
Loss on disposal of capital assets	3,429	2,753
Increase in deferred outflows of resources	(2,612,443)	(918,035)
Increase in net pension liability	3,231,359	1,571,117
Increase in deferred inflows of resources	97,449	144,939
Changes in assets and liabilities -		
Receivables -		
Patients	122,106	(47,477)
Due from other governments	(51,337)	(2,507)
Due from Douglas County	(16,439)	(24,719)
Estimated third-party payor settlements	(590,761)	92,806
Prepaid expenses	948	10,243
Inventories	12,575	(4,322)
Accounts payable	(128,122)	(86,419)
Due to Douglas County	806,697	853,187
Accrued salaries and benefits payable	178,640	300,826
Compensated absences	17,083	60,876
Accrued claims on self-insured workers' compensation	99,939	600,112
Net cash used in operating activities	\$ <u>(13,992,719)</u>	<u>(10,623,691)</u>

See notes to the financial statements

Notes to Financial Statements
June 30, 2016 and 2015

(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 accounts of the Douglas County Health Center Patient Fund are included in the statements of net position and are 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 270 bed institution comprised of the following:

- Skilled Nursing (long-term care and short-term rehabilitation) – 254 beds
- Acute Psychiatric Care – 16 beds

The skilled nursing and acute psychiatric care beds are certified under both the Medicare and Medicaid healthcare programs. 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 healthcare 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 healthcare 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 healthcare 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, 2016 and 2015

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. Several provisions have been implemented while other provisions are slated to take effect at specified times over approximately the next decade.

C. Basis of Presentation

The statements of net position display the Health Center's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Unrestricted – This component of net position consists of net position resources not meeting the definition of the preceding category. Unrestricted net positions often have constraints on resources imposed by management or the Board which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Health Center's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Health Center's basic financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned, expenses are recognized when incurred.

E. 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.

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, deferred outflows, liabilities and deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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.

Notes to Financial Statements
June 30, 2016 and 2015

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, 2016 and 2015.

J. Cash Internally Designated or Restricted

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

K. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 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. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date, but before the end of the employer's reporting period.

M. Compensated Absences

Employees can earn annual vacation, 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.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Douglas County Employees' Retirement Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Notes to Financial Statements
June 30, 2016 and 2015

O. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statements of net position consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

P. 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.

Q. Indigent Care

The Health Center provides indigent healthcare services under three separate programs. The Primary Healthcare 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 the Mental Health Region 6 Governing Board, 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.

R. 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.

S. 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 healthcare services. Nonexchange revenue (expense), including taxes, grants contributions received for purposes other than capital asset acquisition, and interest expense are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services.

T. Reclassification

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 reporting format.

Notes to Financial Statements
June 30, 2016 and 2015

U. Subsequent Events

The Health Center considered events occurring through December 9, 2016 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, 2014.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. 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, 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 83% of the Health Center's net patient service revenue for the years ended June 30, 2016 and 2015, 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 2016 and 2015, 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 \$2,274,911 and \$1,823,977 in 2016 and 2015, respectively, which is included with gross patient service revenue.

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The following illustrates the Health Center's gross patient service revenue at its established rates and the revenue deductions by major third-party payors for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue	\$ 36,310,801	33,528,153
Deductions from gross patient service revenue:		
Estimated Medicare adjustments	(3,260,186)	(2,503,877)
Estimated Medicaid adjustments	(2,020,789)	(891,765)
Estimated Medicaid intergovernmental transfer and settlement	4,248,825	4,026,302
Estimated deduction for other billing adjustments	(4,187,948)	(3,159,181)
Estimated deduction for indigent care	<u>(870,227)</u>	<u>(1,197,180)</u>
Net patient service revenue (before provision for uncollectible accounts)	30,220,476	29,802,452
Provision for uncollectible accounts	<u>(420,279)</u>	<u>(374,592)</u>
Net patient service revenue	<u>\$ 29,800,197</u>	<u>29,427,860</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.

Deposits

For the purposes of classifying categories of custodial risk, the bank balances of the County's deposits as of June 30, 2016 and 2015, 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.

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Notes to Financial Statements
June 30, 2016 and 2015

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 \$226,532 and \$200,689 collateralized with securities held by the pledging financial institution's trust department or agent in the fund's name of \$232,679 and \$219,798 at June 30, 2016 and 2015, 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, 2016 and 2015, 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 fund's name.

(5) Composition of Patient Receivables

Patient receivables as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Patient Accounts	\$ 8,354,998	7,941,839
Less estimated third-party contractual adjustments	(3,591,606)	(2,882,925)
Less allowance for uncollectible accounts	<u>(456,966)</u>	<u>(630,382)</u>
	<u>\$ 4,306,426</u>	<u>4,428,532</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>2016</u>	<u>2015</u>
Medicare/Medicaid	47%	52%
Commercial	14	9
Private pay/Pending	<u>39</u>	<u>39</u>
	<u>100%</u>	<u>100%</u>

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(6) Capital Assets

Capital assets activity for the years ended June 30, 2016 and 2015 were as follows:

	June 30, 2015	Additions	Transfers and Disposals	June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 442,000	--	--	442,000
Construction in progress	--	845,368	--	845,368
Total capital assets, not being depreciated	442,000	845,368	--	1,287,368
Capital assets, being depreciated:				
Land improvements	362,077	--	--	362,077
Buildings and fixtures	7,998,782	--	--	7,998,782
Building improvements	27,322,485	--	--	27,322,485
Fixed equipment	30,922	--	--	30,922
Moveable equipment	3,041,625	5,899	(264,862)	2,782,662
Total capital assets, being depreciated	38,755,891	5,899	(264,862)	38,496,928
Less accumulated depreciation:				
Land improvements	(362,077)	--	--	(362,077)
Buildings and fixtures	(7,998,796)	(2,849)	--	(8,001,645)
Building improvements	(15,083,775)	(1,049,315)	--	(16,133,090)
Fixed equipment	(30,075)	(139)	--	(30,214)
Moveable equipment	(2,419,609)	(124,338)	261,433	(2,282,514)
Total accumulated depreciation	(25,894,332)	(1,176,641)	261,433	(26,809,540)
Total capital assets, being depreciated, net	12,861,559	(1,170,742)	(3,429)	11,687,388
Total capital assets, net	\$ 13,303,559	(325,374)	(3,429)	12,974,756
	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 442,000	--	--	442,000
Construction in progress	438,745	--	(438,745)	--
Total capital assets, not being depreciated	880,745	--	(438,745)	442,000
Capital assets, being depreciated:				
Land improvements	362,077	--	--	362,077
Buildings and fixtures	8,006,357	--	(7,575)	7,998,782
Building improvements	26,136,548	747,192	438,745	27,322,485
Fixed equipment	30,922	--	--	30,922
Moveable equipment	2,923,776	165,927	(48,078)	3,041,625
Total capital assets, being depreciated	37,459,680	913,119	383,092	38,755,891
Less accumulated depreciation:				
Land improvements	(362,077)	--	--	(362,077)
Buildings and fixtures	(8,004,481)	(1,890)	7,575	(7,998,796)
Building improvements	(14,035,761)	(1,048,014)	--	(15,083,775)
Fixed equipment	(29,778)	(297)	--	(30,075)
Moveable equipment	(2,306,294)	(158,640)	45,325	(2,419,609)
Total accumulated depreciation	(24,738,391)	(1,208,841)	52,900	(25,894,332)
Total capital assets, being depreciated, net	12,721,289	(295,722)	435,992	12,861,559
Total capital assets, net	\$ 13,602,034	(295,722)	(2,753)	13,303,559

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Construction in progress at June 30, 2016 includes \$845,368 in costs associated with a building improvement project. Estimated total cost is \$979,000 and will be financed by operations. The project will be completed in 2017.

Depreciation expense of \$1,176,641 and \$1,208,841 for 2016 and 2015, respectively, is included in the accompanying statements of revenue, expenses and changes in net position.

(7) Bonds Payable

A summary of bonds payable at June 30, 2016 and 2015 is as follows:

	<u>June 30, 2015</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2016</u>	<u>Due Within One Year</u>
General Obligation Facility					
Refunding Bonds (A)	\$ 6,975,000	--	(560,000)	6,415,000	570,000
Bond Premium	<u>3,008</u>	<u>--</u>	<u>(289)</u>	<u>2,719</u>	<u>289</u>
	<u>\$ 6,978,008</u>	<u>--</u>	<u>(560,289)</u>	<u>6,417,719</u>	<u>570,289</u>
	<u>June 30, 2014</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2015</u>	<u>Due Within One Year</u>
General Obligation Facility					
Refunding Bonds (A)	\$ 7,525,000	--	(550,000)	6,975,000	550,000
Bond Premium	<u>3,297</u>	<u>--</u>	<u>(289)</u>	<u>3,008</u>	<u>289</u>
	<u>\$ 7,528,297</u>	<u>--</u>	<u>(550,289)</u>	<u>6,978,008</u>	<u>550,289</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 2.00% 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.

The annual debt service requirements, to maturity, for bonds payable as of June 30, 2016, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 570,000	195,563	765,563
2018	580,000	182,613	762,613
2019	595,000	167,181	762,181
2020	610,000	149,850	759,850
2021	625,000	130,544	755,544
2022-2026	<u>3,435,000</u>	<u>313,859</u>	<u>3,748,859</u>
	<u>\$ 6,415,000</u>	<u>1,139,610</u>	<u>7,554,610</u>

Notes to Financial Statements
June 30, 2016 and 2015

(8) Pension and Retirement Benefits

Plan Administration

The Douglas County Board of Commissioners established and appointed the Douglas County Pension Committee with responsibility to manage and administer the Douglas County Employees Retirement Plan (the Plan), a single employee defined benefit pension plan that provides pension benefits to employees of Douglas County.

The Pension Committee consists of 11 members of which at least one is a County Commissioner. Per the Pension Committee Composition Guidelines, the Committee consists of five members designated by position and six members form the various County Offices and Departments, taking into account the need to have a diverse membership. Members are approved by the Douglas County Board and, in general, serve for a minimum term of five years.

Plan Membership

Membership of the Plan consists of the following at January 1, 2016:

Retirees and beneficiaries receiving benefits	1,193
Terminated plan members entitled to, but not yet receiving, benefits	115
Disabled participants	26
Active employees	<u>2,121</u>
Total membership	<u><u>3,455</u></u>

Plan Benefits

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.

Retirement benefits for bargaining members hired before July 1, 2011 and non-bargaining members hired before January 1, 2012 are calculated as 2.0% of the member's 5-year final average salary times the member's years of service not to exceed 60% of the member's final average salary. Benefits for bargaining members hired after June 30, 2011 and non-bargaining members hire after December 31, 2011 are calculate as 1.5% of the member's 5-year final average salary times the member's years of service not to exceed 45% of the member's final average salary. Benefits for sheriff deputy members hired after June 30, 2011 are calculated as 1.0% of the member's 5-year final average salary times the member's years of service up to 10 plus 2.0% of the member's 5-year final average salary times the member's years of service for years between 11 and 20, and 2.5% of the member's 5-year final average salary times the member's years of service for years after 20 up to 32 not to exceed 60% of the member's final average salary.

Plan members are eligible to retire at age 65, sheriff deputy members hired after June 30, 2011 are eligible to retire at age 55. Bargaining members hired before July 1, 2011 and non-bargaining members hired before January 1, 2012 may retire early at age 55 with 20 years of service or age 60 with 5 years of service. Bargaining members hired after June 30, 2011 and non-bargaining members hire after December 31, 2011 may retire early at age 50 with 10 years of service of age 60 with 5 years of service. Sheriff deputy members hired after June 30, 2011 may retire early at age 53.

Plan members are eligible to retire without reduction following age 50 when age plus years of service equals or exceeds 75 (Rule of 75). Bargaining employees hired after June 30, 2011 and non-bargaining employees hired after December 31, 2011 are not eligible for the Rule of 75.

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Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are determined in the same manner as retirement benefits but are payable at the member's early retirement date reduced for early commencement and to reflect payment as a 50% joint and survivor annuity.

The Pension Committee reserves the right to amend the provisions of the plan.

Funding Policy – Annual contributions to the Plan are determined and amended by the Board and are comprised of employee contributions equal to 8.5% of reported earnings. The County by statute contributes an amount equal to the employees' contribution. The Health Center's contributions to the Plan totaled \$1,954,775 and \$1,741,935 for the years ended June 30, 2016 and 2015, respectively. Administrative costs for management of investment funds are financed through investment earnings. Other administrative expenses are paid by the County's general fund.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Health Center reported a liability of \$29,992,527 for its proportionate share of the net pension liability. The Health Center's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health Center's proportion of the net pension liability was based on the Health Center's share of contributions to the pension plan relative to the contributions of the County. At December 31, 2015 the Health Center's proportion was 18.49%, which was an increase of .55% from its proportion measured as of December 31, 2014.

For the years ended June 30, 2016 and 2015, the Health Center recognized its proportionate share of pension expense of \$2,662,298 and \$2,623,484, respectively. At June 30, 2016, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ --	242,388
Net difference between projected and actual earnings on pension plan investments	2,707,266	--
Changes in proportion and differences between Health Center contributions and proportionate share of contributions	781,591	--
Deferred outflows on contributions made after measurement date	<u>916,144</u>	<u>--</u>
	<u>\$ 4,405,001</u>	<u>242,388</u>

The \$916,144, reported as deferred outflows of resources related to pensions resulting from contributions made subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2017	\$ 768,411
2018	768,411
2019	768,411
2020	554,418
2021	38,096
Thereafter	<u>348,722</u>
	<u>\$ 3,246,469</u>

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Actuarial Methods and Assumptions

The pension liability for GASB Nos. 67 and 68 reporting purposes was determined by the following actuarial assumptions:

Actuarial Cost Method	Projected Unit Credit
Asset Valuation Method	Smoothed value as used for funding valuation purposes
Amortization Method	Level Percent of Payroll
Amortization Period	30-Year Open Period
Salary Scale	
18-44	5.50%
45-54	5.00%
55+	4.50%
Investment Rate of Return	7.50%
Mortality Table	IRS 2007
No inflation assumption	

Discount Rate

The discount rate used to measure the total pension liability as of December 31, 2015 was 7.50%. The prior year rate was 7.50%. The rate is an estimate based upon the long term rate of return for the various pension investment funds. The projection of cash flows used to determine the discount rate assumed that the employee and employer contributions will each be made at 8.5% of covered payroll for each year in the future. Based upon those assumptions, the pensions plan fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long- term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the total pension liability.

Investment Policy

Investment decisions are established and amended by the Pension Committee. The objective of the plan's investment policy is to provide present and future retirement benefits by achieving an attractive rate of return without exposing the plan to undue risk. The asset range for investments consists of recommended ranges and the following is the target asset allocation approved by the committee:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Annual Allocation</u>
Large Cap Equity	27.5%	27.2%
Small Cap Equity	12.5	15.1
International Equity	15.0	14.0
Fixed Income	40.0	34.9
Core Real Estate	5.0	4.5
Cash	--	4.4
Total	100.0%	100.0%

Sensitivity of the Net Pension Liability to Changes in Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as the net pension liability calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than current rate:

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Health Center's proportionate share of the net pension liability	\$ 39,164,194	29,992,527	22,405,767

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Pension Plan Fiduciary Net Position

The Plan maintained assets of \$269,935,429 at December 31, 2015. The total pension liability as of that date was \$432,181,183, resulting in a net pension liability of \$162,245,754. Total deferred outflows of resources and deferred inflows of resources at the measurement date were \$14,749,437 and \$1,333,479, respectively.

Detailed information about the pension plan's fiduciary net position is available in the pension trust fund of the separately issued basic financial statements of the County. Quarterly and annual financial reports and actuarial reports are available on the Employees' Pension Board website 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.

Payables to the Pension Plan

At June 30, 2016, the Health Center reported payables to the defined benefit pension plan of \$916,144 for legally required employer contributions and \$142,072 for legally required employee contributions which had been withheld from employee wages but not yet remitted to the Plan.

(9) Post-Retirement Healthcare Benefits

The County provides certain post-employment healthcare 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. In 2012, the Nebraska Supreme Court ruled that the County had the authority to implement a premium differential between active employees and retirees. 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.

(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 \$1,300,051 and \$1,200,112 for self-insured losses at June 30, 2016 and 2015, 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, 2015	Additions	Reductions	June 30, 2016	Amounts Due Within One Year
Accrued claims on self-insured workers' compensation	\$ 1,200,112	462,515	(362,576)	1,300,051	394,436
	<u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2015</u>	<u>Amounts Due Within One Year</u>
Accrued claims on self-insured workers' compensation	\$ 600,000	932,672	(332,560)	1,200,112	378,516

Notes to Financial Statements
June 30, 2016 and 2015

(11) Contingencies

A. Federal Financial Assistance

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

B. Other

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

C. Litigation

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

(12) 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 \$31,601 and \$40,435 in contributions and other revenue in the fiscal years ended June 30, 2016 and 2015, respectively. The Foundation had net assets of \$138,602 and \$140,748 at June 30, 2016 and 2015, respectively.

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

(13) Deficit Balance

The Health Center had a deficit unrestricted balance of \$16,033,638 and \$15,300,408 at June 30, 2016 and 2015, respectively, primarily due to the net pension liability of \$29,992,527 and \$26,761,168 at June 30, 2016 and 2015, respectively.

Douglas County Health Center
A proprietary fund of Douglas County, Nebraska

**Schedule of the Health Center's Proportionate Share of the Net Pension Liability
Required Supplementary Information
June 30, 2016**

Douglas County Employee's Retirement Plan
Last Two Fiscal Years*
(In Thousands)

	<u>2016</u>	<u>2015</u>
Health Center's proportion of net pension liability	18.49%	17.94%
Health Center's proportionate share of the net pension liability	\$ 29,993	26,761
Health Center's covered-employee payroll	\$ 19,878	19,973
Health Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	150.88%	133.99%
Plan fiduciary net position as a percentage of the total pension liability	62.46%	64.20%

* The amounts presented for each fiscal year were determined as of December 31

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Health Center will present information for those years for which information is available.

See accompanying independent auditor's report

Douglas County Health Center
A proprietary fund of Douglas County, Nebraska

**Schedule of Health Center's Contributions
Required Supplementary Information
June 30, 2016**

Douglas County Employee's Retirement Plan
Last Three Fiscal Years
(In Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 1,955	1,742	1,714
Contributions in relation to the statutorily required contribution	<u>(1,955)</u>	<u>(1,742)</u>	<u>(1,714)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>--</u>	<u>--</u>
Health Center's covered-employee payroll	\$ 20,962	19,878	19,973
Contributions as a percentage of covered-employee payroll	9.33%	8.76%	8.58%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Health Center will present information for those years for which information is available.

See accompanying independent auditor's report

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
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, 2016, 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 9, 2016.

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.

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*.

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 9, 2016.

Douglas County Health Center
A proprietary fund of Douglas County, Nebraska

Schedule of Audit Findings and Responses
For the Year Ended June 30, 2016

Financial Statement Findings – None in the current year.