

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

Financial Statements
June 30, 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 sheet of Douglas County Health Center (Health Center), a Proprietary Fund of Douglas County, Nebraska, as of June 30, 2009, and the related statements of revenue, expenses and changes in net assets and cash flows for the year 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, 2009, and the respective changes in financial position and cash flows for the year 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, 2009, a report dated December 22, 2009, 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 23 and 24 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. 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 22, 2009.

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

Management's Discussion and Analysis
June 30, 2009

This narrative overview and analysis of the financial performance of Douglas County Health Center (the Health Center) provides an overview of the Health Center's activities for the fiscal year ended June 30, 2009. 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 \$3,835,667 from the year ended June 30, 2008 primarily due to a change in the determination of the value of accounts receivable. An in depth analysis was performed and it was determined that a large percentage of the accounts older than 120 days were in the psychiatric services. These accounts are more likely to be uncollectible than long term care accounts which make up a higher percentage of total charges.
- Operating revenue decreased from \$28,035,301 in 2008 to \$26,572,414 in the current year because of the increase in the provision for uncollectible accounts of \$1,027,170 stemming from the same in depth analysis.
- Operating expenses increased by \$1,741,875 due to salary increases (\$719,942), benefits (\$377,926), and drugs (\$854,729).
- This combination of decreased revenue and increased expenses resulted in an operating loss of \$15,207,887 which is \$3,204,762 higher than the loss in the prior year.

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 sheet, statement of revenue, expenses and changes in net assets, and statement of cash flows; 2) Notes to the financial statements; and 3) Supplemental information including the schedule of revenue and expenses for the Community Mental Health Center, the retirement system and post retirement obligations.

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 sheet and is the subject of a separate financial statement.

Douglas County Health Center
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Management's Discussion and Analysis
June 30, 2009

Balance Sheet

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, 2008 and June 30, 2009 is:

Summary of Balance Sheets

	<u>2008</u>	<u>2009</u>
ASSETS:		
Current assets	\$ 21,472,601	17,504,886
Non-current assets	<u>19,493,241</u>	<u>18,860,693</u>
	<u>\$ 40,965,842</u>	<u>36,365,579</u>
LIABILITIES:		
Current liabilities	7,290,695	7,717,107
Non-current liabilities	<u>11,091,961</u>	<u>9,900,953</u>
	<u>18,382,656</u>	<u>17,618,060</u>
NET ASSETS:		
Invested in capital assets, net of related debt	7,227,387	8,313,688
Restricted net assets	226,390	62,005
Unrestricted net assets	<u>15,129,409</u>	<u>10,371,826</u>
	<u>22,583,186</u>	<u>18,747,519</u>
	<u>\$ 40,965,842</u>	<u>36,365,579</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 payers such as Medicare and Medicaid as well as amounts due from individual patients. This is for services already provided but not yet paid.

Douglas County Health Center
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Management's Discussion and Analysis
June 30, 2009

Statement of Revenue, Expenses and Changes in Net Assets

The following table shows the summary of revenue, expenses and changes in net assets:

	<u>2008</u>	<u>2009</u>
OPERATING REVENUE		
Net patient service revenue	\$ 25,939,338	25,463,902
Other	<u>2,095,963</u>	<u>1,108,512</u>
Total Operating Revenue	<u>28,035,301</u>	<u>26,572,414</u>
OPERATING EXPENSES		
Long-term care	9,142,167	9,431,678
General	4,749,872	4,761,359
Ancillary services	8,348,344	9,136,565
Administration	6,277,558	6,410,610
Assisted living	229,940	257,701
Dietary	2,435,516	2,572,618
Psychiatric	5,263,781	5,552,219
Medical administration	1,397,237	1,155,335
Fiscal	<u>1,121,129</u>	<u>1,201,647</u>
Department Expenses	38,965,544	40,479,732
Special Purpose Fund	53,074	44,275
Depreciation	<u>1,019,808</u>	<u>1,256,294</u>
Total	<u>40,038,426</u>	<u>41,780,301</u>
Operating Loss	<u>(12,003,125)</u>	<u>(15,207,887)</u>
NONOPERATING REVENUE	10,433,611	7,372,220
TRANSFERS IN	<u>4,000,000</u>	<u>4,000,000</u>
CHANGE IN NET ASSETS	2,430,486	(3,835,667)
NET ASSETS, BEGINNING	<u>20,152,700</u>	<u>22,583,186</u>
NET ASSETS, ENDING	<u>\$ 22,583,186</u>	<u>18,747,519</u>

Operating revenue decreased by \$1,462,887 and expenses increased by \$1,741,875 resulting in a net loss of \$15,207,887 an increase from \$12,003,125. There was a decrease in patient days in the inpatient psychiatric unit and assisted living. Patients in the outpatient clinic increased, but visits decreased from 18,092 to 17,334.

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Management's Discussion and Analysis
June 30, 2009

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 the current year, an additional appropriation to the adopted budget was appropriated for salary increases granted after the budget hearing and adoption. Operating revenue was budgeted at \$29,428,792 with actual receipts of \$28,754,052. Expenses were budgeted at \$41,407,330 with actual expenses of \$40,614,258.

ECONOMIC FACTORS AND NEXT YEAR BUDGET

Gradual increases in both expenses and revenue are anticipated in the coming year. The occupancy of assisted living has decreased over the last six months due to changes in the Medicaid waiver program and this will continue in the coming year unless steps are taken to either increase private pay admissions or accept non-waiver Medicaid residents.

Occupancy rates have fluctuated throughout the year and this is expected to continue in the coming year with similar volatility for revenue. In long term care, the state is currently reviewing the payment system for this service and the impact of this change is unknown but not expected to be detrimental.

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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Balance Sheet
June 30, 2009

ASSETS	<u>2009</u>
Current assets:	
Cash and cash equivalents	\$ 4,608,639
Receivables -	
Patients, net of allowance for uncollectable	
accounts of \$1,638,431	6,193,642
Due from other governments	37,939
Due from Douglas County	67,902
Taxes, net allowance for uncollectable accounts of \$17,866	3,236,017
Estimated third-party payor settlements	2,718,471
Prepaid expenses	14,751
Inventories	325,854
Assets held for others	301,671
Total current assets	<u>17,504,886</u>
Noncurrent assets:	
Cash internally designated or restricted	2,127,642
Deferred charges	70,847
Capital assets, net	<u>16,662,204</u>
Total noncurrent assets	<u>18,860,693</u>
Total assets	<u>\$ 36,365,579</u>
 LIABILITIES AND NET ASSETS	
Current liabilities:	
Current portion of bonds payable	\$ 1,180,000
Accounts payable	640,480
Due to Douglas County	2,546,967
Accrued salaries and benefits payable	1,903,034
Compensated absences	1,105,792
Current portion of accrued claims on self-insured	
workers' compensation	39,163
Assets payable to others	301,671
Total current liabilities	<u>7,717,107</u>
Noncurrent liabilities:	
Accrued claims on self-insured workers' compensation,	
net of current portion	595,953
Bonds payable, net of current portion	<u>9,305,000</u>
Total noncurrent liabilities	<u>9,900,953</u>
Total liabilities	<u>17,618,060</u>
Net assets:	
Invested in capital assets, net of related debt	8,313,688
Restricted for debt service	62,005
Unrestricted	<u>10,371,826</u>
Total net assets	<u>18,747,519</u>
Total liabilities and net assets	<u>\$ 36,365,579</u>

See notes to financial statements

Douglas County Health Center
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Statement of Revenue, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2009

	<u>2009</u>
OPERATING REVENUE:	
Net patient service revenue (net of provision for uncollectible accounts of \$2,473,008)	\$ 25,463,902
Other	<u>1,108,512</u>
Total operating revenue	<u>26,572,414</u>
OPERATING EXPENSES:	
Departmental -	
Long-term Care	9,431,678
General services	4,761,359
Ancillary services	9,136,565
Administrative services	6,410,610
Assisted living	257,701
Dietary services	2,572,618
Psychiatric services	5,552,219
Medical administration	1,155,335
Fiscal services	1,201,647
Nondepartmental -	
Special purpose fund expense	44,275
Depreciation	<u>1,256,294</u>
Total operating expenses	<u>41,780,301</u>
Operating loss	<u>(15,207,887)</u>
NONOPERATING REVENUE (EXPENSE):	
Property and real estate taxes	7,414,905
State and local funding	433,835
Investment earnings	23,074
Contributions	35,513
Loss on disposal of capital assets	(30,500)
Amortization of bond issuance costs	(11,295)
Interest expense	<u>(493,312)</u>
Total nonoperating revenue, net	<u>7,372,220</u>
LOSS BEFORE TRANSFERS IN	(7,835,667)
TRANSFERS IN	<u>4,000,000</u>
CHANGE IN NET ASSETS	(3,835,667)
NET ASSETS, BEGINNING OF YEAR	<u>22,583,186</u>
NET ASSETS, END OF YEAR	<u>\$ 18,747,519</u>

See notes to financial statements

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Statement of Cash Flows
For the Year Ended June 30, 2009

	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Payments for hospital services	\$ 26,552,693
Payments from Douglas County for hospital services	1,219,443
Other operating cash receipts	1,103,450
Cash payments to employees	(20,663,368)
Cash payments to others	(19,041,458)
Cash payments to Douglas County	<u>(178,760)</u>
Net cash used in operating activities	<u>(11,008,000)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers	4,000,000
Tax receipts	8,157,646
State and local funding	<u>433,835</u>
Net cash provided by noncapital financing activities	<u>12,591,481</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Asset acquisition	(1,098,105)
Contributions	35,513
Principal paid on capital debt	(1,135,000)
Interest paid on capital debt	<u>(493,312)</u>
Net cash used in capital and related financing activities	<u>(2,690,904)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends	<u>23,074</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,084,349)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>7,820,630</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 6,736,281</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS	
Cash and cash equivalents - current assets	\$ 4,608,639
Cash internally designated or restricted	<u>2,127,642</u>
Total cash	<u>\$ 6,736,281</u>

See notes to financial statements

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Statement of Cash Flows (continued)
For the Year Ended June 30, 2009

	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (15,207,887)
Adjustments to reconcile operating loss to net cash used by operating activities -	
Depreciation	1,256,294
Changes in assets and liabilities	
Receivables -	
Patients	2,402,564
Due from other governments	(5,062)
Due from Douglas County	255,040
Estimated third-party payor settlements	(349,370)
Prepaid expenses	4,262
Inventories	(880)
Accounts payable	(124,290)
Due to Douglas County	496,718
Accrued salaries and benefits payable	181,611
Compensated absences	96,616
Accrued claims on self-insured workers' compensation	<u>(13,616)</u>
Net cash used in operating activities	<u>\$ (11,008,000)</u>

See notes to financial statements

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Notes to Financial Statements
June 30, 2009

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of Douglas County Health Center (the 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 (the Program) operates within the Health Center facility and is included as a portion of the Health Center. The program operates the acute psychiatric beds, psychiatric outpatient services, a partial hospitalization program and a mental health diversions program. The Program must satisfy certain requirements established by the funding agencies. The requirements include; specified services to a defined area and population, which includes low income or indigent persons, reasonable effort to collect professional fees, and compliance 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.

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Notes to Financial Statements
June 30, 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, 2009, and the changes in its financial position or, where applicable, its cash flows for the year 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 Accounts Receivable, Net*

Net patient receivables consist of uncollateralized patient and third-party obligations reduced by a valuation allowance for doubtful 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, 2009.

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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, holiday time off and special time off at various rates during their period of employment. In the event of termination, an employee is reimbursed for accumulated vacation time and comp time up to a maximum allowed carryover of 240 hours of vacation. 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 a 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”, 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.

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

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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 Community Mental Health Center (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 services provided in the CMHC, the discount is available to all 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 result 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 the audit report date 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 payers 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, 2008.

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.

Other - The Health Center has also entered into other various agreements for services rendered. The basis for payment to the Health Center under these agreements includes discounts on established charges.

Indigent Care - The Health Center provides care to residents of the County for which it does not anticipate reimbursement from any source.

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Notes to Financial Statements
June 30, 2009

Revenue from the Medicare and Medicaid programs accounted for approximately 66% of the Health Center's net patient revenue for the year ended June 30, 2009. 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 2009 net patient service revenue increased approximately \$790,000, due to the receipt of settlements that were higher than previously estimated as a result of final settlements.

Region 6 Mental Health

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 \$1,791,952 in 2009, which is included with gross patient service revenue.

The following illustrates the Health Center's patient revenue at its established rates and the revenue deductions by major third-party payors for the year ended June 30, 2009:

	<u>2009</u>
Gross patient service revenue	\$ 32,713,812
Deductions from patient service revenue:	
Estimated Medicare adjustments	(1,726,001)
Estimated Medicaid adjustments	4,230,485
Estimated Medicaid intergovernmental transfer settlement	3,028,637
Estimated deduction for other billing adjustments	(7,658,914)
Estimated deduction for indigent care	<u>(2,651,109)</u>
Net patient service revenue (before provision for bad debt)	27,936,910
Provision for bad debt	<u>(2,473,008)</u>
Net patient service revenue	<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 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, 2009, are either entirely insured or collateralized with securities held by the County's agents in the County's name.

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

Notes to Financial Statements
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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 \$301,671 with total bank balances of \$331,020 at June 30, 2009.

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, 2009, \$331,020 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, 2009 consist of the following:

	<u>2009</u>
Patient accounts	\$ 13,676,406
Less estimated third-party contractual adjustments	(5,844,333)
Less allowance for doubtful accounts	<u>(1,638,431)</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>2009</u>
Medicare/Medicaid	19%
Commercial	3%
Private pay/Pending	<u>78%</u>
	<u>100%</u>

(6) Retirement Plan

Plan Description and Funding Policy

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

Membership data related to the Plan for the year beginning January 1, 2009, the date of the latest actuarial valuation, is as follows:

Douglas County Health Center
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	<u>2009</u>
Retirees and beneficiaries receiving benefits	982
Terminated Plan members entitled to but not yet receiving benefits	82
Disabled participants	<u>30</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 (the Committee), which consists of at least one County Commissioner and other employees of the County as appointed by the Board of County Commissioners. 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 are determined by the Committee are paid by the County, and 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 prior to 2000, the most recent being done as of January 1, 2009.

The information presented in the notes to financial statements and required supplementary information was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed
Remaining amortization period	30 years
Asset valuation method	Adjusted value of plan assets
	One-half of the excess of market value over the adjusted value of plan assets
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increase	5.5% per year
Cost-of-living adjustments	COLA are reviewed on a biannual basis

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, 2008 are as follows:

	<u>2009</u>
Annual Required Contribution (ARC)	\$ (15,298,146)
Employee contribution	8,762,361
Employer annual required contribution	<u>(6,535,785)</u>
Interest on net pension assets	(513,251)
Adjustment to annual required contribution	<u>295,588</u>
Annual pension cost	(6,753,448)
Contributions made	<u>8,732,900</u>
Decrease in the net pension obligation	1,979,452
Net pension obligation, beginning of year	<u>(6,843,347)</u>
Net pension obligation, end of year	<u>\$ (4,863,895)</u>

Douglas County Health Center
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June 30, 2009

The net pension liability of \$4,863,895, as of December 31, 2008, 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 2008, 2007 and 2006 are as follows:

<u>Year Ending December 31:</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 6,753,448	129.3%	4,863,895
2007	6,573,864	115.8%	6,843,347
2006	7,930,271	77.0%	7,879,616

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.

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, 2008. Prior to that date, the rate was 7.5%. The County contributes an amount equal to the employee's contribution.

(7) Post-Retirement Healthcare Benefits

A. Post-Employment Benefits

Effective January 1, 2008, the County adopted Governmental Accounting Standards Board Statement No. 45 (GASB 45), Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. This statement 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. The County implemented this statement prospectively (zero net obligations at transition).

B. Plan Description

The County sponsors a single-employer, defined benefit healthcare plan that provides certain post-employment health care benefits to eligible retirees and their dependents up to age 65 when they would be Medicare eligible. The Health Center employees participate in these post-employment health care benefits. The benefits include medical, dental, vision and life insurance. The benefits and premiums have been the same as for active employees. 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 45. The plan is a single-employee defined benefit health care plan administered by the County. The plan does not issue separate financial statements.

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Notes to Financial Statements
June 30, 2009

C. *Funding Policy*

The contribution requirements of plan members and the County are established by and can be amended by the Douglas County Board of Commissioners. Contributions are made to the plan based on a pay-as-you-go basis. For the year ended June 30, 2009, the County contributed \$2,171,588 net of retiree contributions for 267 out of a total of 1,064 retirees, in addition to their covered dependents. Retiree contribution rates were the same as active employees. Retiree contributions for 2009 were \$283,409. This is 13.5% 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 cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

	<u>2009</u>
Annual OPEB cost	\$ (6,000,839)
Contributions made	<u>2,454,997</u>
Increase in OPEB obligation	(3,545,842)
Net OPEB obligation – beginning of year	<u>(3,936,923)</u>
Net OPEB obligation – end of year	<u>\$ (7,482,765)</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Contributed</u>	<u>Net OPEB</u>
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, 2007, the most recent and initial actuarial valuation date, the Plan is not funded. The actuarial accrued liability for the benefits is \$ 56,895,886. The value of Plan assets is \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$56,895,886. Covered payroll was \$93,696,887. The ratio of UAAL to covered payroll was 60.7%.

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 health care cost trend. Amounts determined regarding the funded status of the 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 multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Douglas County Health Center
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Notes to Financial Statements
June 30, 2009

F. *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and 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, 2007 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 on plan assets, which are zero, and on the employer's own investments calculated based upon the level of the plan at the valuation date, a 4% discount rate, at July 1, 2007 an annual health care cost trend of 11.06% initially, reduced by decrements to an ultimate rate of 5.93% after eight years. One hundred percent of eligible members are assumed to elect coverage upon retirement. The remaining amortization period is 30 years.

(8) Capital Assets

Capital assets activity for the year ended June 30, 2009, was as follows:

	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
Movable 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)
Movable 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>

Depreciation expense of \$951,688 is included in the accompanying statement of revenue, expenses and changes in net assets.

Douglas County Health Center
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Notes to Financial Statements
June 30, 2009

(9) Long-Term Debt

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

	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)	<u>10,115,000</u>	<u>--</u>	<u>400,000</u>	<u>9,715,000</u>	<u>410,000</u>
	<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, 2009 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 a 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 rate of 3.35% to 4.75% with a final maturity dated December 1, 2025.

The annual debt service requirements, to maturity, for long term debt as of June 30, 2009, are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 1,180,000	444,278	1,624,278
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
2015-2019	2,675,000	1,400,995	4,075,995
2020-2024	3,295,000	763,557	4,058,557
2025-2026	<u>1,540,000</u>	<u>74,101</u>	<u>1,614,101</u>
	<u>\$ 10,485,000</u>	<u>4,153,792</u>	<u>14,638,792</u>

(10) Risk Management

The Health Center is included in the insurance coverage of the County. The County manages various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disaster. 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 \$500,000 per occurrence for worker's compensation risks and up to \$350,000 per occurrence for general.

The Health Center has accrued liabilities of \$635,116 for self-insured losses as of June 30, 2009. These accrued liabilities are based on the County's evaluation of the merits of various claims, historical experience and consultation with external insurance consultants and include estimates for incurred but not reported claims. Losses estimated to be settled within one year have been classified as current liabilities.

Douglas County Health Center
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Notes to Financial Statements
June 30, 2009

	<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

(11) Commitments

At June 30, 2009, the Health Center renovations were still proceeding. All current project stages had been completed and planned projects had not yet been let for contract.

(12) Contingencies

A. Federal Financial Assistance

The County participates in federally assisted grant programs. Compliance with the 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 Health Center professional liability insurance through a "claims made" basis commercial insurance policy. Nebraska State law limits recoveries from governmental entities to \$1 million per incident and \$5 million in aggregate.

C. Litigation

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

(13) Douglas County Health Center Foundation

The Douglas County Health Center Foundation 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 Douglas County Health Center in manners that the Douglas County 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 \$303,357 in contributions and other revenue in the fiscal year ended June, 2009 and had net assets of \$130,656.

In 2008 the Foundation financed the construction of a solarium addition which was recorded as a contribution receivable on the Health Center financials. The solarium was subsequently conveyed to the Health Center and is recorded as a \$1,083,504 fixed asset in 2009. 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, 2009

OPERATING REVENUE	
Net patient service revenue	\$ 4,695,247
Region 6 Mental Health Block Grant	<u>1,791,952</u>
Total Operating Revenue	6,487,199
OPERATING EXPENSES	
Departmental	
Community Mental Health	<u>13,284,577</u>
Operating Loss	\$ <u><u>(6,797,378)</u></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
June 30, 2009

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2008	\$ 177,833,982	270,350,586	92,516,604	66%	97,663,283	94.73%
2007	165,309,144	248,985,748	83,676,604	66%	91,592,577	91.36%
2006	151,686,147	239,601,938	87,915,791	63%	88,892,199	98.90%
2005	142,402,678	221,641,517	79,238,839	64%	92,503,782	85.66%
2004	132,768,961	204,952,080	72,183,119	65%	82,282,848	87.73%
2003	125,237,848	188,697,118	63,459,270	66%	77,182,693	82.22%
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
2008	\$ 15,298,146	8,732,900	57%
2007	13,938,599	7,610,133	55%
2006	13,838,041	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
June 30, 2009

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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, 2008	--	--	--	--	--	--
July 1, 2007 ⁽¹⁾	--	56,895,886	56,895,886	--	93,696,887	60.70%
July 1, 2006	n/a	n/a	n/a	n/a	n/a	n/a

⁽¹⁾ Most recent valuation date

Schedule of Employer Contributions

Year Ended December 31:	Annual Required Contribution (ARC)	Employer Contributions	Percentage of ARC Contributed
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.

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, 2009, and have issued our report thereon dated December 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 09-1 and 09-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 09-1 and 09-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters that required to be reported under *Government Auditing Standards*.

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

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

Spim, Johnson, Sostek & Quist, LLP

Omaha, Nebraska,
December 22, 2009.

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

Schedule of Findings and Responses
June 30, 2009

Item 09-1

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 09-2

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.