

Howard County Medical Center

**(f/k/a Howard County Community Hospital)
A Component Unit of Howard County, Nebraska
St. Paul, Nebraska**

**Financial Statements
June 30, 2010 and 2009**

Together with Independent Auditor's Report

Howard County Medical Center
(f/k/a Howard County Community Hospital)
A Component Unit of Howard County, Nebraska

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Independent Auditor's Report

To the Board of Directors of
Howard County Medical Center
f/k/a Howard County Community Hospital
St. Paul, Nebraska:

We have audited the accompanying balance sheets of Howard County Medical Center (f/k/a Howard County Community Hospital) (Medical Center), a component unit of Howard County, Nebraska, as of June 30, 2010 and 2009, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As explained in Note 1, the accompanying financial statements present only the Hospital Fund of Howard County, Nebraska, and are not intended to present fairly the financial position of Howard County, Nebraska, and changes in financial position and cash flows 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 the Medical Center, a component unit of Howard County, Nebraska, as of June 30, 2010 and 2009, and the respective change in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2010, on our consideration of the Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the 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 read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information (Exhibits 1-3) 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,
November 17, 2010.

Management's Discussion and Analysis

Introduction

Howard County Medical Center (Medical Center) offers readers of our financial statements this narrative overview and analysis of the financial activities for the years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with the financial statements, including the notes thereto.

Overview of Required Financial Statements

This discussion and analysis is intended to serve as an introduction to the Medical Center's audited financial statements. The financial statements are composed of the balance sheets, statements of revenues, expenses and changes in net assets, and the statements of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Medical Center's finances.

The Medical Center's financial statements report information using accounting methods similar to those used by private sector healthcare organizations. These statements offer short and long-term information about its activities. The balance sheet includes all assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). The balance sheet also provides the basis for evaluating capital structure and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the success of the Medical Center's operations over the past two years and can be used to determine whether the organization has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final required statement is the statement of cash flows. This statement reports the net changes in cash from cash receipts, cash payments and other activities resulting from operating, investing and financing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Overall Financial Highlights

Total assets increased \$683,000 during the fiscal year ended June 30, 2010 when compared to fiscal year ended June 30, 2009. Increase was due to net patient service revenues increasing which increased receivables.

Net patient service revenue for fiscal year 2010 was \$13.5 million, and \$12.3 million for year ending 2009. This represents a 10.1% increase over prior year. Operating margin was 5.0% for fiscal year 2010, compared to 5.1% for fiscal year 2009.

Financial Analysis of the Organization

The balance sheets and the statements of revenues, expenses and changes in net assets report the net assets of the Medical Center and the changes in them. Net assets, the difference between assets and liabilities, represent one measurement of the financial health of the Medical Center. Over time, sustained increases or decreases in net assets are one indicator of whether the organization's financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

Howard County Medical Center
(f/k/a Howard County Community Hospital)
A Component Unit of Howard County, Nebraska

Management's Discussion and Analysis

Balance Sheets

A summary of the balance sheets at June 30, 2010, 2009, and 2008 is presented below:

Condensed Balance Sheet (in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 5,239	4,270	3,744
Assets limited as to use	1,961	2,170	1,974
Capital assets, net	10,021	10,175	10,613
Other assets	<u>92</u>	<u>111</u>	<u>127</u>
Total assets	<u>\$ 17,313</u>	<u>16,726</u>	<u>16,458</u>
Current liabilities	\$ 2,038	1,528	1,423
Long-term liabilities	<u>6,173</u>	<u>6,881</u>	<u>7,549</u>
Total liabilities	<u>\$ 8,211</u>	<u>8,409</u>	<u>8,972</u>
Net assets -			
Invested in capital assets, net of related debt	\$ 3,243	3,006	2,771
Restricted	3	3	10
Unrestricted	<u>5,856</u>	<u>5,308</u>	<u>4,706</u>
Total net assets	<u>\$ 9,102</u>	<u>8,317</u>	<u>7,487</u>

Net assets increased by \$785,000, 9.4%, during fiscal year 2010 due to excess revenues over expenses from July 1, 2009 to June 30, 2010. Current assets increase by 22.7% when compared to June 30, 2009. This is due to increased patient receivables and third party settlements.

Revenues, Expenses and Changes in Net Assets

The following table presents a summary of the Medical Center's revenues and expenses for the years ended June 30, 2010, 2009, and 2008.

Condensed Statements of Revenue, Expenses and Changes in Net Assets (in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenue	\$ 13,552	12,322	11,453
Operating expenses	<u>12,867</u>	<u>11,690</u>	<u>10,843</u>
Operating income	685	632	610
Nonoperating income	<u>78</u>	<u>111</u>	<u>191</u>
Excess of revenue over expenses	763	743	801
Capital grants and contributions	<u>22</u>	<u>87</u>	<u>129</u>
Increase in net assets	785	830	930
Total net assets, beginning of year	<u>8,317</u>	<u>7,487</u>	<u>6,557</u>
Total net assets, end of year	<u>\$ 9,102</u>	<u>8,317</u>	<u>7,487</u>

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Management's Discussion and Analysis

Operational and Financial Performance

The following summarizes the Medical Center's major changes in revenues, expenses and changes in net assets comparing the years ended June 30, 2010 and 2009.

Operating revenues

In fiscal year 2010, operating revenue increased by 9.9%. Gross patient revenue increased by \$1,589,000 or 10.1% over last year as seen in Note (2). There was significant growth in inpatient and outpatient services. Note (2) also shows that gross patient revenue is adjusted for unreimbursed amounts. The Medical Center provides care for all patients regardless of their ability to pay. We consider participation in federal and state funded programs such as Medicare and Medicaid as essential. The financial impact of these philosophies is represented as deductions from service revenue. Medicare and Medicaid write-offs totaled \$2,296,000 in fiscal year 2010 and \$2,268,000 in fiscal year 2009. Deductions related to charity care were \$245,000 and \$180,000 for the same years respectively. Such deductions directly reduce patient care revenue, and the resulting amount is Net Patient Service Revenue as shown on Table 2. The deductions are also further detailed in Note (2).

Operating expenses

The total operating expenses for fiscal year 2010 increased by 10.8% over the prior year. Our primary category of expenditures, Salary and benefits, increased by 11.9% or \$668,000. Our second largest expense category, other expenses, increased by 27.0% or \$81,000.

Nonoperating income

Nonoperating income was \$78,000 and \$111,000 for fiscal years 2010 and 2009, respectively. The decrease in nonoperating revenue was primarily due to the decreases in non-capital grants and contributions.

Capital grants and contributions

Capital grants and contributions for fiscal year 2010 were \$22,000 compared to \$87,000 for fiscal year 2009.

Capital Assets

At the end of fiscal year 2010 the Medical Center had \$10,021,000 invested in capital assets, net of accumulated depreciation. One year ago, the net capital assets totaled \$10,175,000.

Capital Assets (in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 298	298	298
Land improvements	57	14	12
Building	8,120	8,504	8,908
Equipment	<u>1,546</u>	<u>1,359</u>	<u>1,395</u>
Total	<u>\$ 10,021</u>	<u>10,175</u>	<u>10,613</u>

Debt Service

The facility has FY10 debt service requirement of \$509,000. At June 30, 2010 the Medical Center has \$557,649 of assets limited as to use by the Board for debt service.

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Management's Discussion and Analysis

Economic and Other Factors and Next Year's Budget

Salaries and Benefits are expected to rise to due increased staffing and rate increases to ensure competitive applicability to surrounding areas. Many factors were considered in the preparation of the FY10 Budget. Of primary importance is state of economy, which takes into account market forces and factors such as:

- Recovery Audit Contractors (RAC) and Medicaid Integrity Contractors (MIC)
- Health Care Reform
- Implementation of Electronic Medical Records
- Medicare and Medicaid reimbursement rates
- Increasing consumer share of healthcare costs, and its impact on bad debt expense
- Increasing employment healthcare costs
- Benchmark pricing reviews
- Workforce shortages
- Cost of supplies
- Increasing drug costs
- Changes in CAH legislation
- Competitors
- Changing population demographics
- Other regulatory changes

Contacting the Organization's Finance Department

The Medical Center's financial statements are designed to present users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about the report or need additional financial information, please contact Thomas R. Parish, CPA, Chief Financial Officer for Howard County Medical Center, 1113 Sherman Street; PO Box 406, St. Paul, NE 68873-0406.

Howard County Medical Center
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A Component Unit of Howard County, Nebraska

Balance Sheets
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,230,566	1,382,989
Receivables -		
Patient, net of allowance for doubtful accounts of \$774,000 in 2010 and \$595,986 in 2009	3,004,391	2,291,483
Interest	7,686	7,583
Other	61,234	61,240
Inventories	160,302	169,740
Prepaid expenses	160,973	108,994
Estimated third-party payor settlements	<u>613,664</u>	<u>248,323</u>
Total current assets	5,238,816	4,270,352
Assets limited as to use	1,960,691	2,169,572
Capital assets, net	10,020,956	10,174,750
Other assets	<u>92,343</u>	<u>111,373</u>
Total assets	<u>\$ 17,312,806</u>	<u>16,726,047</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 508,696	287,370
Accounts payable		
Trade	324,970	327,567
Property	96,527	--
Accrued salaries, vacation and benefits payable	1,000,891	858,434
Accrued interest payable	<u>107,368</u>	<u>54,838</u>
Total current liabilities	2,038,452	1,528,209
Long-term debt, net of current portion	<u>6,172,489</u>	<u>6,881,184</u>
Total liabilities	<u>8,210,941</u>	<u>8,409,393</u>
Net assets:		
Invested in capital assets, net of related debt	3,243,244	3,006,196
Restricted non-expendable	3,042	3,042
Unrestricted	<u>5,855,579</u>	<u>5,307,416</u>
Total net assets	<u>9,101,865</u>	<u>8,316,654</u>
Total liabilities and net assets	<u>\$ 17,312,806</u>	<u>16,726,047</u>

See notes to financial statements

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

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debts	\$ 13,946,863	12,601,759
Provision for bad debts	421,882	312,725
Net patient service revenue	13,524,981	12,289,034
Other operating revenue	26,744	32,831
Total operating revenue	<u>13,551,725</u>	<u>12,321,865</u>
OPERATING EXPENSES:		
Salaries and wages	6,266,883	5,599,167
Employee benefits	1,353,181	1,307,312
Professional and purchased services	1,458,410	1,306,278
Repairs and maintenance	334,607	335,474
Supplies	1,447,614	1,197,522
Utilities	284,561	295,753
Insurance	152,208	153,170
Other expenses	380,644	299,704
Depreciation and amortization	897,819	869,326
Interest	290,951	325,999
Total expenses	<u>12,866,878</u>	<u>11,689,705</u>
OPERATING INCOME	<u>684,847</u>	<u>632,160</u>
NONOPERATING REVENUE (EXPENSES):		
Noncapital grants and contributions	11,428	32,734
Investment income	70,083	78,610
Loss on disposal of capital assets	(3,129)	(319)
Nonoperating revenue, net	<u>78,382</u>	<u>111,025</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	763,229	743,185
CAPITAL GRANTS AND CONTRIBUTIONS	<u>21,982</u>	<u>87,008</u>
INCREASE IN NET ASSETS	785,211	830,193
NET ASSETS, beginning of year	<u>8,316,654</u>	<u>7,486,461</u>
NET ASSETS, end of year	<u>\$ 9,101,865</u>	<u>8,316,654</u>

See notes to financial statements

Howard County Medical Center
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Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 12,446,732	12,303,432
Cash paid to suppliers and contractors	(4,097,314)	(3,552,856)
Cash paid to employees for salaries and benefits	(7,477,607)	(6,840,688)
Other receipts and payments, net	26,750	38,414
	<u>898,561</u>	<u>1,948,302</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES,		
Noncapital grants and contributions received	<u>11,428</u>	<u>32,734</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants and contributions	21,982	87,008
Principal payments on long-term debt	(491,365)	(678,677)
Interest paid on long-term debt	(227,872)	(318,589)
Purchase of capital assets	(644,018)	(424,444)
Cash received from disposition of capital assets	--	470
	<u>(1,341,273)</u>	<u>(1,334,232)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income received	69,980	79,517
Withdrawals from (deposits to) assets limited as to use	<u>208,881</u>	<u>(195,177)</u>
	<u>278,861</u>	<u>(115,660)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(152,423)	531,144
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,382,989</u>	<u>851,845</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u>1,230,566</u>	<u>1,382,989</u>

See notes to financial statements

Howard County Medical Center
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Statements of Cash Flows (Continued)
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 684,847	632,160
Adjustments to reconcile the operating income to net cash provided by operating activities:		
Depreciation and amortization	897,819	869,326
Interest expense	290,951	325,999
Forgiveness of notes receivable	5,868	1,742
(Increase) decrease in current assets -		
Receivables -		
Patients	(712,908)	(207,353)
Other	6	5,583
Inventories	9,438	(27,585)
Prepaid expenses	(51,979)	10,879
Estimated third-party payor settlements	(365,341)	221,751
Increase (decrease) in current liabilities		
Accounts payable - trade	(2,597)	50,009
Accrued salaries, vacation and benefits payable	142,457	65,791
Net cash provided by operating activities	<u>\$ 898,561</u>	<u>1,948,302</u>

See notes to financial statements

Howard County Medical Center
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Notes to Financial Statements
June 30, 2010 and 2009

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and provides a summary of significant accounting policies of Howard County Medical Center (f/k/a Howard County Community Hospital) (Medical Center). These policies are in accordance with accounting principles generally accepted in the United States of America. The Medical Center is a component unit of Howard County, Nebraska, and is exempt from federal and state income taxes.

A. Reporting Entity

The financial statements of the Medical Center are used to account for the provisions of acute hospital and physician clinic to the residents of Howard County and the surrounding area.

The Medical Center's financial statements are an integral part of Howard County, Nebraska. The accompanying financial statements are not intended to present fairly the financial position, changes in financial position, and cash flows of Howard County, Nebraska, in conformity with accounting principles generally accepted in the United States of America.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for the Medical Center. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through critical access hospitals (CAH's) and rural health networks. CAH's are acute care facilities that provide emergency, outpatient, and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis. The Medical Center's application for CAH was approved by the Nebraska Health and Human Services System and the certification was effective October 1, 2000.

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 Medical 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.

C. Basis of Accounting

The Medical Center utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Pursuant to Section 1600 of the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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Notes to Financial Statements
June 30, 2010 and 2009

D. 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.

E. Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

F. 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.

G. Inventories

Inventories are stated at cost, determined on the first-in, first-out valuation method, which approximates market.

H. Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements and debt service reserve, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Additionally, assets whose use is limited include donated assets with donor stipulations that limit the use of such assets. Investments consist of certificates of deposit and accrued interest, all of which are recorded at fair value.

I. Capital Assets

Capital asset acquisitions are stated at cost. All acquisitions of capital assets over \$5,000 are capitalized. Depreciation is provided on a straight-line method based upon useful lives set forth by the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following range of estimated asset lives:

Land improvements	15 years
Buildings	5 – 50 years
Building and capital improvements	5 – 20 years
Equipment	3 – 20 years

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Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire capital assets are reported as capital grants and contributions.

J. Deferred Financing Costs

Deferred financing costs are being amortized over the term of the related long-term debt utilizing the interest method of amortization. Amortization expense of \$17,159 and \$18,298 for the years ended June 30, 2010 and 2009, respectively, is included in depreciation and amortization and interest expense in the statements of revenue, expenses and changes in net assets.

K. Capitalized Interest

Interest costs are capitalized when incurred on debt where the proceeds are used to finance the acquisition or construction of capital assets. Interest earned on unexpended bond during the construction of capital assets is offset against interest costs in determining the net amount to be capitalized as a component of capital assets.

L. Compensated Absences

Paid time off (PTO) vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. The maximum amount of hours to be carried forward is fixed at 120 hours. PTO expense is accrued as an expense and a liability as it is earned. PTO leave expenditures are recognized to the extent they are paid during the year and the vested amount is recorded as a current liability. Compensated absence liabilities are computed using regular pay rates for PTO in effect at the balance sheet date.

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 non-expendable – This component of net assets consists of the net assets that equal the principal portion of permanent endowments.

Unrestricted – This component of net assets consists of net assets that do not meet the definition of “invested in capital assets”, “restricted expendable” or “restricted nonexpendable”, above.

N. Restricted Resources

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

O. Net Patient Service Revenue

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

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Notes to Financial Statements
June 30, 2010 and 2009

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

P. Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Charges excluded from revenue under the Medical Center's charity care policy were \$245,078 and \$179,554 in 2010 and 2009, respectively.

Q. Grants and contributions

The Medical Center generally receives grants and contributions from various agencies, private organizations and individuals. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

R. Operating Revenue and Expenses

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

S. Self-funded Health Insurance

The Medical Center self-funds health insurance for its employees and their dependents. Health insurance expense is recorded on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred but not reported claims. The Medical Center has stop loss insurance to cover catastrophic claims. For June 30, 2010 and 2009, respectively, the limits were \$35,000 and \$40,000, annually per individual, and \$1,000,000 aggregate coverage.

T. Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

V. Medical Malpractice Insurance

Medical malpractice insurance is purchased under claims-made policies. Under these policies, only claims made and reported to the insurer are covered during the policy term.

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The Medical Center accrues the expense of its share of asserted and unasserted claims occurring during the year by estimating the probable ultimate cost of any such claim. Such estimates are based on the Medical Center's own claims experience. The Medical Center's management does not expect any claim to exceed the insurance coverage limits. However, because of the risk involved in providing healthcare services, it is possible an event has occurred that will be the basis of a future material claim.

U. Subsequent Events

The Medical Center considered events occurring through November 17, 2010 for recognition or disclosure of the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

V. Reclassification

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 reporting format.

(2) Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services, certain outpatient services, and rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor. The Medical Center's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2009.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Medical Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Medical Center under these agreements includes discounts from established charges and prospectively determined daily rates.

The Medical Center reports net patient service revenue at estimated net realized amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 53% and 7% of the Medical Center's net patient revenue for the year ended June 30, 2010 and approximately 53% and 7% of the Medical 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

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result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2010 and 2009 net patient service revenue increased approximately \$290,000 and \$57,000, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

The following illustrates the Medical Center's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue:		
Inpatient, including swing bed	\$ 4,143,324	3,752,879
Outpatient	10,406,005	9,407,974
Clinic	<u>2,776,497</u>	<u>2,576,536</u>
Total gross patient service revenue	<u>17,325,826</u>	<u>15,737,389</u>
Deductions from patient service revenue:		
Medicare	1,864,681	1,882,959
Medicaid	431,234	385,467
Other payors	837,970	687,650
Charity care	<u>245,078</u>	<u>179,554</u>
Total deductions from patient service revenue	<u>3,378,963</u>	<u>3,135,630</u>
Provision for bad debts	13,946,863	12,601,759
	<u>421,882</u>	<u>312,725</u>
Net patient service revenue	<u>\$ 13,524,981</u>	<u>12,289,034</u>

(3) Cash and Assets Limited as to Use

The statutes of the State of Nebraska authorize the Medical Center to invest in certificates of deposit and time deposits of banks or capital stock financial institutions, obligations of the United States government and agencies thereof, and any securities as provided in the authorized investment guidelines of the Nebraska Investment Council.

Government regulations require that all bank balances be insured or collateralized by U.S. government securities held by the Medical Center's third-party agent or the pledging financial institution's trust department in the name of the Medical Center.

Interest Rate Risk: The Medical Center staggers the maturity dates of certificate of deposits as a means of meeting short and long-term cash obligations and managing its exposure to fair value losses arising from changes in interest rates.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned. The Medical Center does not have a formal deposit policy for custodial credit risk beyond requirements set forth by the state statutes. At June 30, 2010 and 2009, none of the Medical Center's bank balances of \$3,191,257 and \$3,552,561, respectively, were exposed to custodial credit. Deposits at June 30, 2010 and 2009 were collateralized as follows:

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	<u>2010</u>	<u>2009</u>
Insured (FDIC) or collateralized with securities held by the Medical Center	\$ 1,183,006	1,503,671
Collateralized with securities held by the pledging financial institution in the Medical Center's name	<u>2,008,251</u>	<u>2,048,890</u>
	<u>\$ 3,191,257</u>	<u>3,552,561</u>

Assets limited as to Use

Assets limited as to use are recorded at fair value as of June 30, 2010 and 2009, consist of the following:

	<u>2010</u>	<u>2009</u>
By Board for capital improvements, Certificates of deposit	\$ 1,400,000	1,437,109
By Board for debt service reserve, Certificate of deposit	557,649	729,421
By Donor, Certificate of deposit	<u>3,042</u>	<u>3,042</u>
Total assets limited as to use	<u>\$ 1,960,691</u>	<u>2,169,572</u>

(4) Composition of Patient Receivables

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

	<u>2010</u>	<u>2009</u>
Patient accounts	\$ 4,282,934	3,241,583
Less estimated third-party contractual adjustments	(504,543)	(354,114)
Less allowance for doubtful accounts	<u>(774,000)</u>	<u>(595,986)</u>
	<u>\$ 3,004,391</u>	<u>2,291,483</u>

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

	<u>2010</u>	<u>2009</u>
Medicare	44%	37%
Medicaid	3	4
Commercial	20	18
Private pay	<u>33</u>	<u>41</u>
	<u>100%</u>	<u>100%</u>

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(5) Capital Assets

Capital assets and related accumulated depreciation are summarized below:

	<u>June 30,</u> <u>2009</u>	<u>Additions</u>	<u>Transfers</u> <u>and Disposals</u>	<u>June 30,</u> <u>2010</u>
Capital assets, not being depreciated:				
Land	\$ 298,216	--	--	298,216
Total capital assets, not being depreciated	<u>298,216</u>	<u>--</u>	<u>--</u>	<u>298,216</u>
Capital assets, being depreciated:				
Land improvements	25,862	48,868	(3,533)	71,197
Buildings and fixed equipment	12,070,810	57,931	--	12,128,741
Major moveable equipment	4,131,634	633,747	(45,086)	4,720,295
Total capital assets, being depreciated	<u>16,228,306</u>	<u>740,546</u>	<u>(48,619)</u>	<u>16,920,233</u>
Less accumulated depreciation:				
Land improvements	(12,155)	(2,773)	883	(14,045)
Buildings and fixed equipment	(3,567,294)	(441,406)	--	(4,008,700)
Major moveable equipment	(2,772,323)	(447,032)	44,607	(3,174,748)
Total accumulated depreciation	<u>(6,351,772)</u>	<u>(891,211)</u>	<u>45,490</u>	<u>(7,197,493)</u>
Total capital assets, being depreciated, net	<u>9,876,534</u>	<u>(150,665)</u>	<u>(3,129)</u>	<u>9,722,740</u>
Total capital assets, net	<u>\$ 10,174,750</u>	<u>(150,665)</u>	<u>(3,129)</u>	<u>10,020,956</u>
	<u>June 30,</u> <u>2008</u>	<u>Additions</u>	<u>Transfers</u> <u>and Disposals</u>	<u>June 30,</u> <u>2009</u>
Capital assets, not being depreciated:				
Land	\$ 298,216	--	--	298,216
Total capital assets, not being depreciated	<u>298,216</u>	<u>--</u>	<u>--</u>	<u>298,216</u>
Capital assets, being depreciated:				
Land improvements	22,618	--	3,244	25,862
Buildings and fixed equipment	12,011,568	62,486	(3,244)	12,070,810
Major moveable equipment	4,093,670	361,958	(323,994)	4,131,634
Total capital assets, being depreciated	<u>16,127,856</u>	<u>424,444</u>	<u>(323,994)</u>	<u>16,228,306</u>
Less accumulated depreciation:				
Land improvements	(10,629)	(1,364)	(162)	(12,155)
Buildings and fixed equipment	(3,103,829)	(463,627)	162	(3,567,294)
Major moveable equipment	(2,698,329)	(397,172)	323,178	(2,772,323)
Total accumulated depreciation	<u>(5,812,787)</u>	<u>(862,163)</u>	<u>323,178</u>	<u>(6,351,772)</u>
Total capital assets, being depreciated, net	<u>10,315,069</u>	<u>(437,719)</u>	<u>(816)</u>	<u>9,876,534</u>
Total capital assets, net	<u>\$ 10,613,285</u>	<u>(437,719)</u>	<u>(816)</u>	<u>10,174,750</u>

Depreciation expense of \$891,210 and \$862,163 in 2010 and 2009, respectively, is included in the accompanying statement of revenue, expenses and changes in net assets.

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(6) Long-Term Debt

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

	<u>June 30,</u> <u>2009</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2010</u>	<u>Due Within</u> <u>One Year</u>
General obligation refunding bonds (A)	\$ 3,180,000	--	--	3,180,000	120,000
Deferred loss on bond refunding	(16,830)	--	(3,531)	(13,299)	(3,161)
General obligation bonds (B)	415,000	--	230,000	185,000	30,000
General obligation bonds (C)	3,360,000	--	115,000	3,245,000	290,000
Original issue discount on bonds	(7,959)	--	(464)	(7,495)	(464)
Note payable (D)	24,468	--	6,865	17,603	6,939
Note payable (E)	22,836	--	6,407	16,429	7,436
Capital lease obligation (F)	191,039	--	133,092	57,947	57,946
	<u>\$ 7,168,554</u>	<u>--</u>	<u>487,369</u>	<u>6,681,185</u>	<u>508,696</u>

	<u>June 30,</u> <u>2008</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2009</u>	<u>Due Within</u> <u>One Year</u>
General obligation refunding bonds (A)	\$ 3,455,000	--	275,000	3,180,000	--
Deferred loss on bond refunding	(20,713)	--	(3,883)	(16,830)	(3,531)
General obligation bonds (B)	545,000	--	130,000	415,000	30,000
General obligation bonds (C)	3,470,000	--	110,000	3,360,000	115,000
Original issue discount on bonds	(8,423)	--	(464)	(7,959)	(464)
Note payable (D)	30,807	--	6,339	24,468	6,865
Note payable (E)	28,752	--	5,916	22,836	6,407
Capital lease obligation (F)	316,101	--	125,062	191,039	133,093
Capital lease obligation	26,360	--	26,360	--	--
	<u>\$ 7,842,884</u>	<u>--</u>	<u>674,330</u>	<u>7,168,554</u>	<u>287,370</u>

The bonds referenced as (A) through (C) above are all general obligation bonds of Howard County (the County). As such, the county has the authority to levy additional ad valorem taxes, if necessary, to make the required principal and interest payments on the bonds in the event the Medical Center cannot meet the debt service obligations. It is the Medical Center's intent to service all debt through the revenues generated by the Medical Center. As of June 30, 2010, no additional ad valorem taxes have been levied to support any of the bond obligations referenced above. The bonds are secured by the full faith and credit of the County.

The terms and due dates of the Medical Center's long-term debt, including capital lease obligations, at June 30, 2010 and 2009 are as follows:

- (A) General Obligation Refunding bonds of the carrying interest rates of ranging from 3.00% to 4.05%; due in varying semi-annual installments; interest only payments due on January 1 each year through 2018 with principal and interest payments due on July 1 each year through 2019.
- (B) General Obligation Hospital Building bonds of the carrying interest rates ranging from 4.85% to 5.65%; due in varying semi-annual installments; interest only payments due on March 1 each year through 2020 with principal and interest payments due on September 1 each year through 2021.

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- (C) General Obligation Bonds, Series 2006 of the carrying interest rates ranging from 3.80% to 4.5%; due in varying semi-annual installments; interest only payments due on March 1 each year through 2026 with principal and interest payments due on September 1 each year through 2027.
- (D) 8% promissory note due in monthly installments of \$715, including principal and interest, through September 2012; unsecured.
- (E) 8% promissory note due in monthly installments of \$667, including principal and interest, through September 2012; unsecured.
- (F) Capital lease obligation with an imputed interest rate of 6.24%, due in monthly installments of \$11,771, including principal and interest, through November 2010; collateralized by leased equipment with a cost of \$613,591 and net book value of \$184,077 as of June 30, 2010.

Scheduled principal and interest repayments on bonds and notes payable and payments on capital lease obligations are as follows:

Year Ending June 30	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2011	\$ 454,374	277,588	57,947	907
2012	475,567	261,680	--	--
2013	484,091	244,515	--	--
2014	505,000	227,070	--	--
2015	525,000	197,285	--	--
2016-2020	2,230,000	626,532	--	--
2021-2025	1,080,000	359,325	--	--
2026-2028	890,000	81,225	--	--
	<u>\$ 6,644,032</u>	<u>2,275,220</u>	<u>57,947</u>	<u>907</u>

(7) Restricted Net Assets

Restricted non-expendable net assets totaled \$3,042 in the years ended June 30, 2010 and 2009 and are restricted as a permanent endowment for the Medical Center. Income generated on related assets may be used by the Medical Center for unrestricted purposes.

(8) Designated Net Assets

Of the \$3,243,244 and \$3,006,196 of unrestricted net assets in 2010 and 2009, respectively, \$1,957,649 and \$2,166,530 has been designated by the Medical Center's Board of Directors for the following:

	<u>2010</u>	<u>2009</u>
Designated for:		
Debt service	\$ 557,649	729,421
Capital improvements	1,400,000	1,437,109
	<u>\$ 1,957,649</u>	<u>2,166,530</u>

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(9) Retirement Plan

The Medical Center maintains a defined contribution pension plan which covers substantially all employees meeting certain age and length of service requirements. Plan expense determined based on a percentage of qualified payroll, was \$188,211 in 2010 and \$164,603 in 2009. Of these totals, \$64,643 and \$53,491 is included in physicians' clinic other expense in 2010 and 2009, respectively.

(10) Professional Liability Insurance

The Medical Center carries a medical professional liability policy (including malpractice) which provides \$1,000,000 of coverage per occurrence and \$3,000,000 aggregate coverage. The Medical Center also carries a physician professional liability policy with \$500,000 of coverage per occurrence and \$1,000,000 aggregate coverage for all physicians. In addition, the Medical Center carries umbrella and excess medical professional liability policies which both provide \$1,000,000 of coverage per occurrence or claim and \$1,000,000 aggregate coverage. In addition, the Medical Center has coverage under the Nebraska Excess Liability Fund that provides coverage of \$1,000,000 per occurrence. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while coverage is in force. The Medical Center could have exposure on possible incidents that have occurred for which claims will be made in the future should professional liability insurance not be obtained, should coverage be limited and/or not available.

The Medical Center is not aware of any known claims or incidents or claims from unknown incidents that may be asserted from services provided to patients. The Medical Center has also evaluated its paid claims history and has been determined that no reserve for losses on both asserted and unasserted claims is needed.

(11) Budget and Budgetary Accounting

The Board of Directors annually adopts a budget for operations and capital on the accrual basis of accounting following required public notice and hearings for all funds. The following is a reconciliation between reported amounts and cash disbursements and a comparison to budget:

<u>Unrestricted Fund</u>	<u>Actual</u>	<u>Budget</u>
Total revenue	\$ 13,551,725	13,362,431
Total expenses	<u>12,866,878</u>	<u>13,111,035</u>
Operating income	684,847	251,396
Nonoperating income	<u>78,382</u>	<u>144,300</u>
Excess of revenue over expenses before capital contributions	<u>\$ 763,229</u>	<u>395,696</u>

(12) Subsequent Event

Subsequent to year end, the Medical Center entered into a capital lease agreement for approximately \$559,000, commencing on September 8, 2010 with Siemens for a 40-slice CT scanner. The Medical Center is to make monthly payments of \$10,257 at an interest rate of 3.85% for sixty months.

Statistical Highlights
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Patient days:		
Adult and pediatric -		
Medicare	590	578
All other	399	407
Swing bed	<u>2,714</u>	<u>2,994</u>
	<u>3,703</u>	<u>3,979</u>
Adult and pediatric discharges -		
Medicare	192	177
All other	<u>153</u>	<u>151</u>
	<u>345</u>	<u>328</u>
Average length of stay:		
Adult and pediatric -		
Medicare	3.07 days	3.26 days
All other	2.61 days	2.70 days
Observation equivalent days	340	326
Laboratory procedures, chargeable	51,156	49,236
Surgeries	412	388
Radiology procedures	2,810	3,009
Full-time equivalent employees	135.72	134.31

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Exhibit 2

Net Patient Service Revenue
For the Years Ended June 30, 2010 and 2009

	2010			2009		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
NURSING SERVICES:						
Acute-routine services	\$ 754,440	126,915	881,355	657,345	108,935	766,280
Swing bed	779,522	--	779,522	783,390	--	783,390
Nursery	48,918	--	48,918	48,854	--	48,854
Outpatient Observation	2,725	345,260	347,985	2,450	276,715	279,165
	<u>\$ 1,585,605</u>	<u>472,175</u>	<u>2,057,780</u>	<u>1,492,039</u>	<u>385,650</u>	<u>1,877,689</u>
OTHER PROFESSIONAL SERVICES:						
Operating and recovery rooms	66,736	475,865	542,601	68,897	433,488	502,385
Delivery room	38,070	20,881	58,951	31,965	11,801	43,766
Anesthesiology	96,019	333,000	429,019	86,380	347,830	434,210
Radiology	355,116	3,709,070	4,064,186	304,380	3,625,766	3,930,146
Laboratory	353,986	2,317,120	2,671,106	284,811	1,859,161	2,143,972
Blood Bank	25,600	30,475	56,075	19,564	23,180	42,744
Intravenous therapy	--	--	--	121	--	121
Inhalation therapy	232,922	69,525	302,447	236,152	91,479	327,631
Physical therapy	183,373	500,512	683,885	168,158	552,162	720,320
Occupational therapy	71,081	21,787	92,868	65,545	12,896	78,441
Speech therapy	25,139	30,193	55,332	8,454	24,910	33,364
Electrocardiology	18,574	230,255	248,829	20,434	211,854	232,288
Medical and surgical supplies	290,765	506,243	797,008	250,645	500,422	751,067
Pharmacy	791,608	994,551	1,786,159	710,100	800,438	1,510,538
Outpatient clinics	--	59,405	59,405	--	47,885	47,885
Emergency room	7,380	632,061	639,441	5,098	476,030	481,128
Ambulance	1,350	--	1,350	--	--	--
Rural health clinic	--	2,776,497	2,776,497	--	2,576,537	2,576,537
Diabetic education	--	2,887	2,887	--	3,159	3,159
	<u>2,557,719</u>	<u>12,710,327</u>	<u>15,268,046</u>	<u>2,260,704</u>	<u>11,598,998</u>	<u>13,859,702</u>
GROSS PATIENT SERVICE REVENUE	<u>\$ 4,143,324</u>	<u>13,182,502</u>	<u>17,325,826</u>	<u>3,752,743</u>	<u>11,984,648</u>	<u>15,737,391</u>
LESS:						
Contractual allowances			(3,133,885)			(2,956,078)
Charity care services			(245,078)			(179,554)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			<u>13,946,863</u>			<u>12,601,759</u>
PROVISION FOR BAD DEBT			<u>(421,882)</u>			<u>(312,725)</u>
NET PATIENT SERVICE REVENUE			<u>13,524,981</u>			<u>12,289,034</u>

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Operating Expenses
For the Years Ended June 30, 2010 and 2009

	2010			2009		
	Salaries and Wages	Professional Fees and Purchased Services	Total	Salaries and Wages	Professional Fees and Purchased Services	Total
NURSING SERVICES:						
Hospital	\$ 1,375,177	40,681	1,415,858	1,367,320	2,024	1,369,344
Nursery	4,778	6,151	10,929	8,224	--	8,224
	<u>1,379,955</u>	<u>46,832</u>	<u>1,426,787</u>	<u>1,375,544</u>	<u>2,024</u>	<u>1,377,568</u>
OTHER PROFESSIONAL SERVICES:						
Rural helath clinic	2,106,245	339,576	2,445,821	1,735,453	307,523	2,042,976
Laboratory	377,813	407,401	785,214	344,101	342,377	686,478
Radiology	248,879	532,462	781,341	246,106	571,452	817,558
Pharmacy	32,744	537,989	570,733	51,733	415,358	467,091
Anesthesiology	--	303,091	303,091	--	319,085	319,085
Physical therapy	121,139	153,004	274,143	109,484	158,160	267,644
Medical and surgical supplies	9,879	200,261	210,140	10,775	182,864	193,639
Emergency room	182,344	4,671	187,015	142,072	--	142,072
Operating and recovery room	138,740	20,196	158,936	126,446	12,997	139,443
Occupational therapy	528	60,463	60,991	653	45,510	46,163
Delivery room	45,680	7,665	53,345	36,567	1,502	38,069
Inhalation therapy	36,434	12,491	48,925	31,582	13,610	45,192
Blood bank	--	45,357	45,357	--	29,877	29,877
Electrocardiology	16,182	20,206	36,388	16,434	17,487	33,921
Speech therapy	276	27,564	27,840	12	27,911	27,923
Outpatient Clinic	21,570	1,372	22,942	18,679	306	18,985
Intravenous therapy	--	11,913	11,913	--	9,156	9,156
Diabetic education	3,304	--	3,304	3,133	313	3,446
Ambulance	--	910	910	--	--	--
	<u>3,341,757</u>	<u>2,686,592</u>	<u>6,028,349</u>	<u>2,873,230</u>	<u>2,455,488</u>	<u>5,328,718</u>
GENERAL SERVICES:						
Maintenance of plant	77,035	169,035	246,070	69,981	208,477	278,458
Operation of plant	--	217,053	217,053	--	229,813	229,813
Dietary	118,911	66,871	185,782	129,542	70,347	199,889
Housekeeping	155,705	19,992	175,697	148,637	19,712	168,349
Landry and Linen Service	33,330	27,366	60,696	30,512	25,714	56,226
	<u>384,981</u>	<u>500,317</u>	<u>885,298</u>	<u>378,672</u>	<u>554,063</u>	<u>932,735</u>
ADMINISTRATIVE SERVICES	<u>1,160,190</u>	<u>824,303</u>	<u>1,984,493</u>	<u>971,721</u>	<u>576,326</u>	<u>1,548,047</u>
NONDEPARTMENTAL:						
Employee Benefits	--	1,353,181	1,353,181	--	1,307,312	1,307,312
Depreciation and amortization	--	897,819	897,819	--	869,326	869,326
Interest	--	290,951	290,951	--	325,999	325,999
	<u>--</u>	<u>2,541,951</u>	<u>2,541,951</u>	<u>--</u>	<u>2,502,637</u>	<u>2,502,637</u>
TOTAL EXPENSES	<u>\$ 6,266,883</u>	<u>6,599,995</u>	<u>12,866,878</u>	<u>5,599,167</u>	<u>6,090,538</u>	<u>11,689,705</u>

**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 Directors of
Howard County Medical Center
f/k/a Howard County Community Hospital
St. Paul, Nebraska:

We have audited the financial statements of Howard County Medical Center (f/k/a Howard County Community Hospital) (Medical Center), a component unit of Howard County, Nebraska, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 17, 2010. 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 Medical 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 Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses, item 2010-01, to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses, item 2010-02, to be a significant deficiency.

Compliance and Other Matters

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

We also noted certain additional matters that were reported to management of Medical Center in a separate letter dated November 17, 2010.

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

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Seim Johnson Sestak & Quist LLP

Omaha, Nebraska,
November 17, 2010.

Howard County Medical Center
(f/k/a Howard County Community Hospital)
A Component Unit of Howard County, Nebraska

Schedule of Findings and Responses
June 30, 2010

FINANCIAL STATEMENT FINDINGS

Item 2010-1

Material Weakness:

Criteria: The design or operation of the Medical 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 a material adjustment to the estimated amounts due to/from Medicare and Medicaid.

Cause: Accrual balances related to third-party payor estimates requiring estimation and judgment were incorrectly recorded.

Effect: Audit entries were required to adjust the estimated third-party payor settlements.

Recommendation: The Medical Center should review and revise its estimation process to ensure that financial statements are properly stated.

Views of Responsible Officials and Planned Corrective Action: The Medical Center concurs with the recommendation.

Item 2010-2

Significant Deficiency:

Criteria: Proper segregation of duties ensures an adequate internal control structure.

Condition: We identified instances where a lack of segregation of duties exists.

Cause: Due to a limited number of administrative personnel, a lack of segregation of duties exists.

Effect: Without proper segregation of duties, a greater risk of fraud and defalcation may exist.

Recommendation: We recommend the Medical Center continue to monitor and improve its segregation of duties.

Views of Responsible Officials and Planned Corrective Action: Management is aware of this control deficiency and believes it is economically not feasible for the Medical Center to employ additional personnel for the purpose of greater segregation of duties. The Board of Directors provides oversight over the internal control structure of the Medical Center. The Medical Center will continue to monitor and improve segregation of duties.

Howard County Medical Center
(f/k/a Howard County Community Hospital)
A Component Unit of Howard County, Nebraska

Prior Year Audit Findings
June 30, 2010

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