

**Howard County Medical Center**  
A Component Unit of Howard County, Nebraska  
St. Paul, Nebraska

**Financial Statements**  
**June 30, 2011 and 2010**

**Together with Independent Auditor's Report**

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

**Table of Contents**

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	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	2 – 5
Financial Statements:	
Balance Sheets	
June 30, 2011 and 2010 .....	6
Statements of Revenue, Expenses and Changes in Net Assets	
For the Years Ended June 30, 2011 and 2010.....	7
Statements of Cash Flows	
For the Years Ended June 30, 2011 and 2010.....	8 – 9
Notes to Financial Statements	
June 30, 2011 and 2010 .....	10 – 21
Exhibit 1 - Statistical Highlights	
For the Years Ended June 30, 2011 and 2010 .....	22
Exhibit 2 - Net Patient Service Revenue	
For the Years Ended June 30, 2011 and 2010 .....	23
Exhibit 3 - Operating Expenses	
For the Years Ended June 30, 2011 and 2010 .....	24
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards .....	25 – 26
Schedule of Findings and Responses.....	27
Prior Year Audit Findings .....	28

## Independent Auditor's Report

To the Board of Directors of  
Howard County Medical Center  
St. Paul, Nebraska:

We have audited the accompanying balance sheets of Howard County Medical Center (Medical Center), a component unit of Howard County, Nebraska, as of June 30, 2011 and 2010, 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, 2011 and 2010, 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 16, 2011, 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, LLP*

Omaha, Nebraska,  
November 16, 2011.

## **Management's Discussion and Analysis**

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### **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, 2011 and 2010. 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 \$330,000 during the fiscal year ended June 30, 2011 when compared to fiscal year ended June 30, 2010. Increase was due to operating revenues increasing which increased receivables.

Operating revenue for fiscal year 2011 was \$13.56 million and \$13.55 million for year ending 2010. This represents a 0.1% increase over prior year. Operating margin was 4.7% for fiscal year 2011, compared to 5.0% for fiscal year 2010.

### **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**  
A Component Unit of Howard County, Nebraska

**Management's Discussion and Analysis**

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**Balance Sheets**

A summary of the balance sheets at June 30, 2011, 2010, and 2009 is presented below:

*Condensed Balance Sheet (in thousands):*

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 5,525	5,239	4,270
Assets limited as to use	1,969	1,961	2,170
Capital assets, net	10,069	10,021	10,175
Other assets	<u>80</u>	<u>92</u>	<u>111</u>
Total assets	<u>\$ 17,643</u>	<u>17,313</u>	<u>16,726</u>
Current liabilities	\$ 1,723	2,038	1,528
Long-term liabilities	<u>6,087</u>	<u>6,173</u>	<u>6,881</u>
Total liabilities	<u>\$ 7,810</u>	<u>8,211</u>	<u>8,409</u>
Net assets -			
Invested in capital assets, net of related debt	\$ 3,398	3,243	3,006
Restricted	3	3	3
Unrestricted	<u>6,432</u>	<u>5,856</u>	<u>5,308</u>
Total net assets	<u>\$ 9,833</u>	<u>9,102</u>	<u>8,317</u>

Net assets increased by \$731,000, 8.0%, during fiscal year 2011 due to excess revenues over expenses from July 1, 2010 to June 30, 2011. Current assets increase by 5.5% when compared to June 30, 2010. 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, 2011, 2010, and 2009.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue	\$ 13,560	13,549	12,322
Operating expenses	<u>12,925</u>	<u>12,867</u>	<u>11,690</u>
Operating income	635	682	632
Nonoperating income	<u>56</u>	<u>81</u>	<u>111</u>
Excess of revenue over expenses	691	763	743
Capital grants and contributions	<u>40</u>	<u>22</u>	<u>87</u>
Increase in net assets	731	785	830
Total net assets, beginning of year	<u>9,102</u>	<u>8,317</u>	<u>7,487</u>
Total net assets, end of year	<u>\$ 9,833</u>	<u>9,102</u>	<u>8,317</u>

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

**Management's Discussion and Analysis**

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**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, 2011 and 2010.

**Operating Revenues**

In fiscal year 2011, net patient service revenue decreased by 0.61%. Gross patient revenue increased by \$123,000 or 0.71% over last year as seen in Note (2). There was significant growth in 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 \$2,518,000 in fiscal year 2011 and \$2,296,000 in fiscal year 2010. Deductions related to charity care were \$234,000 and \$245,000 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 2011 increased by \$58,000 or 0.45% over the prior year. Our primary category of expenditures, salary and benefits, increased by 1.1% or \$82,000. Our second largest expense category, supply expenses, increased by 6.6% or \$95,000.

**Nonoperating Income**

Nonoperating income was \$55,000 and \$82,000 for fiscal years 2011 and 2010, respectively. The decrease in nonoperating revenue was primarily due to the decreases in investment income.

**Capital Grants and Contributions**

Capital grants and contributions for fiscal year 2011 were \$40,000 compared to \$22,000 for fiscal year 2010.

**Capital Assets**

At the end of fiscal year 2011 the Medical Center had \$10,069,000 invested in capital assets, net of accumulated depreciation. One year ago, the net capital assets totaled \$10,021,000.

Capital Assets (in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 298	298	298
Land improvements	53	57	14
Building	7,733	8,120	8,504
Equipment	<u>1,985</u>	<u>1,546</u>	<u>1,359</u>
Total	<u>\$ 10,069</u>	<u>10,021</u>	<u>10,175</u>

**Debt Service**

The facility has FY11 debt service requirement of \$584,000. At June 30, 2011 the Medical Center has \$621,958 of assets limited as to use by the Board for debt service.

## **Management's Discussion and Analysis**

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### **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 FY11 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**  
A Component Unit of Howard County, Nebraska

**Balance Sheets**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,160,600	1,122,970
Current portion of assets limited as to use or restricted	141,527	107,596
Receivables -		
Patient, net of allowance for doubtful accounts		
of \$864,000 in 2011 and \$774,000 in 2010	3,385,279	3,004,391
Interest	5,492	7,686
Other	32,904	61,234
Inventories	138,052	160,302
Prepaid expenses	177,644	160,973
Estimated third-party payor settlements	<u>483,725</u>	<u>613,664</u>
Total current assets	5,525,223	5,238,816
Assets limited as to use or restricted, net of current portion	1,968,824	1,960,691
Capital assets, net	10,068,822	10,020,956
Other assets	<u>80,003</u>	<u>92,343</u>
Total assets	<u>\$ 17,642,872</u>	<u>17,312,806</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ 583,726	508,696
Accounts payable -		
Trade	321,762	324,970
Property	--	96,527
Accrued salaries, vacation and benefits payable	716,613	1,000,891
Accrued interest payable	<u>101,013</u>	<u>107,368</u>
Total current liabilities	1,723,114	2,038,452
Long-term debt, net of current portion	<u>6,086,742</u>	<u>6,172,489</u>
Total liabilities	<u>7,809,856</u>	<u>8,210,941</u>
Net assets:		
Invested in capital assets, net of related debt	3,398,354	3,243,244
Restricted non-expendable	3,042	3,042
Unrestricted	<u>6,431,620</u>	<u>5,855,579</u>
Total net assets	<u>9,833,016</u>	<u>9,101,865</u>
Total liabilities and net assets	<u>\$ 17,642,872</u>	<u>17,312,806</u>

*See notes to financial statements*

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

**Statements of Revenue, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debts	\$ 13,872,640	13,946,863
Provision for bad debts	<u>(429,968)</u>	<u>(421,882)</u>
Net patient service revenue	13,442,672	13,524,981
Other operating revenue	<u>117,335</u>	<u>23,615</u>
Total operating revenue	<u>13,560,007</u>	<u>13,548,596</u>
OPERATING EXPENSES:		
Salaries and wages	6,215,151	6,280,086
Employee benefits	1,487,753	1,340,646
Professional and purchased services	1,246,032	1,458,410
Repairs and maintenance	504,120	334,607
Supplies	1,542,476	1,447,614
Utilities	292,681	284,561
Insurance	103,199	152,208
Other expenses	300,071	379,976
Depreciation and amortization	951,851	897,819
Interest	<u>281,329</u>	<u>290,951</u>
Total expenses	<u>12,924,663</u>	<u>12,866,878</u>
OPERATING INCOME	<u>635,344</u>	<u>681,718</u>
NONOPERATING REVENUE:		
Noncapital grants and contributions	13,658	11,428
Investment income	<u>41,834</u>	<u>70,083</u>
Nonoperating revenue, net	<u>55,492</u>	<u>81,511</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	690,836	763,229
CAPITAL GRANTS AND CONTRIBUTIONS	<u>40,315</u>	<u>21,982</u>
INCREASE IN NET ASSETS	731,151	785,211
NET ASSETS, beginning of year	<u>9,101,865</u>	<u>8,316,654</u>
NET ASSETS, end of year	<u>\$ 9,833,016</u>	<u>9,101,865</u>

*See notes to financial statements*

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

**Statements of Cash Flows**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third party payors	\$ 13,191,723	12,446,732
Cash paid to suppliers and contractors	(3,986,208)	(4,096,646)
Cash paid to employees for salaries and benefits	(7,991,150)	(7,478,275)
Other receipts and payments, net	72,567	23,621
Net cash provided by operating activities	<u>1,286,932</u>	<u>895,432</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES,</b>		
Noncapital grants and contributions received	<u>13,658</u>	<u>11,428</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants and contributions	40,315	21,982
Proceeds from issuance of long-term debt	585,907	--
Principal payments on long-term debt	(600,248)	(491,365)
Interest paid on long-term debt	(277,747)	(227,872)
Purchase of capital assets	(1,013,151)	(640,889)
Net cash used in financing activities	<u>(1,264,924)</u>	<u>(1,338,144)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income received	44,028	69,980
Withdrawals from (deposits to) assets limited as to use or restricted	(42,064)	312,408
Net cash provided by investing activities	<u>1,964</u>	<u>382,388</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>37,630</b>	<b>(48,896)</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b><u>1,122,970</u></b>	<b><u>1,171,866</u></b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b><u>\$ 1,160,600</u></b>	<b><u>1,122,970</u></b>

*See notes to financial statements*

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

**Statements of Cash Flows (Continued)**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 635,344	681,718
Adjustments to reconcile the operating income to net cash provided by operating activities:		
Gain on disposal	(77,066)	--
Depreciation and amortization	951,851	897,819
Interest expense	281,329	290,951
Forgiveness of notes receivable	--	5,868
(Increase) decrease in current assets -		
Receivables -		
Patients	(380,888)	(712,908)
Other	28,330	6
Inventories	22,250	9,438
Prepaid expenses	(16,671)	(51,979)
Estimated third-party payor settlements	129,939	(365,341)
Increase (decrease) in current liabilities		
Accounts payable - trade	(3,208)	(2,597)
Accrued salaries, vacation and benefits payable	<u>(284,278)</u>	<u>142,457</u>
Net cash provided by operating activities	<u>\$ 1,286,932</u>	<u>895,432</u>

*See notes to financial statements*

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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**(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 (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.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

*C. Basis of Accounting*

The 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.

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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*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 or Restricted*

Assets limited as to use or restricted include assets set aside by the Board of Directors for future capital improvements, debt service reserve, and self-funded health insurance 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 restricted cash, 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

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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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 \$15,964 and \$17,159 for the years ended June 30, 2011 and 2010, 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 240 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.

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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

*P. 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 \$233,951 and \$245,078 in 2011 and 2010, 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, 2011 and 2010, respectively, the limits were \$35,000 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.

*U. 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.

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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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.

V. *Subsequent Events*

The Medical Center considered events occurring through November 16, 2011 for recognition or disclosure of the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

W. *Reclassification*

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 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 Medicaid cost reports have tentatively been audited through June 30, 2009.

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 54% and 3% of the Medical Center's net patient revenue for the year ended June 30, 2011 and approximately 52% and 4% of the Medical Center's net patient revenue for the year ended June 30, 2010. 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 2011 and 2010 net patient service revenue increased approximately \$131,000 and \$290,000, 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.

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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

	<u>2011</u>	<u>2010</u>
Gross patient service revenue:		
Inpatient, including swing bed	\$ 3,558,217	4,143,324
Outpatient	11,093,969	10,406,005
Clinic	<u>2,796,232</u>	<u>2,776,497</u>
Total gross patient service revenue	<u>17,448,418</u>	<u>17,325,826</u>
Deductions from patient service revenue:		
Medicare	2,214,331	1,864,681
Medicaid	303,193	431,234
Other payors	824,303	837,970
Charity care	<u>233,951</u>	<u>245,078</u>
Total deductions from patient service revenue	<u>3,575,778</u>	<u>3,378,963</u>
Provision for bad debts	13,872,640	13,946,863
	<u>429,968</u>	<u>421,882</u>
Net patient service revenue	<u>\$ 13,442,672</u>	<u>13,524,981</u>

**(3) Deposits and Assets Limited as to Use or Restricted**

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, 2011 and 2010, \$2,058,939 and \$2,008,251 of the Medical Center's bank balances of \$3,270,951 and \$3,191,257, respectively, were exposed to custodial credit. Deposits at June 30, 2011 and 2010 were collateralized as follows:

	<u>2011</u>	<u>2010</u>
Insured (FDIC) or collateralized with securities held by the Medical Center	\$ 1,212,012	1,183,006
Collateralized with securities held by the pledging financial institution in the Medical Center's name	<u>2,058,939</u>	<u>2,008,251</u>
	<u>\$ 3,270,951</u>	<u>3,191,257</u>

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

*Assets limited as to Use or Restricted*

Assets limited as to use are recorded at fair value as of June 30, 2011 and 2010, consist of the following:

	<u>2011</u>	<u>2010</u>
By Board for self funded health insurance, Savings account and money market funds	\$ 183,126	107,596
By Board for capital improvements, Certificates of deposit	1,302,225	1,400,000
By Board for debt service reserve, Certificate of deposit	621,958	557,649
By Donor, Certificate of deposit	<u>3,042</u>	<u>3,042</u>
Total assets limited as to use or restricted	2,110,351	2,068,287
Less current portion of self funded health insurance	<u>141,527</u>	<u>107,596</u>
Total assets limited as to use or restricted – long-term	<u>\$ 1,968,824</u>	<u>1,960,691</u>

**(4) Composition of Patient Receivables**

Patient receivables as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Patient Accounts	\$ 4,707,769	4,282,934
Less estimated third-party contractual adjustments	(458,490)	(504,543)
Less allowance for doubtful accounts	<u>(864,000)</u>	<u>(774,000)</u>
	<u>\$ 3,385,279</u>	<u>3,004,391</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>2011</u>	<u>2010</u>
Medicare	43%	44%
Medicaid	5	3
Commercial	21	20
Private pay	<u>31</u>	<u>33</u>
	<u>100%</u>	<u>100%</u>

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**(5) Capital Assets**

Capital assets and related accumulated depreciation are summarized below:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 298,216	--	--	298,216
Construction in progress	--	25,694	--	25,694
Total capital assets, not being depreciated	<u>298,216</u>	<u>25,694</u>	<u>--</u>	<u>323,910</u>
Capital assets, being depreciated:				
Land improvements	71,197	--	--	71,197
Buildings and fixed equipment	12,128,741	62,674	(44,629)	12,146,786
Major moveable equipment	4,720,295	912,665	(1,579,957)	4,053,003
Total capital assets, being depreciated	<u>16,920,233</u>	<u>975,339</u>	<u>(1,624,586)</u>	<u>16,270,986</u>
Less accumulated depreciation:				
Land improvements	(14,045)	(4,181)	--	(18,226)
Buildings and fixed equipment	(4,008,700)	(449,621)	44,629	(4,413,692)
Major moveable equipment	(3,174,748)	(492,022)	1,572,613	(2,094,156)
Total accumulated depreciation	<u>(7,197,493)</u>	<u>(945,824)</u>	<u>1,617,242</u>	<u>(6,526,074)</u>
Total capital assets, being depreciated, net	<u>9,722,740</u>	<u>29,515</u>	<u>(7,344)</u>	<u>9,744,912</u>
Total capital assets, net	<u>\$ 10,020,956</u>	<u>55,209</u>	<u>(7,344)</u>	<u>10,068,822</u>
	<u>June 30, 2009</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 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>

Depreciation expense of \$945,824 and \$891,211 in 2011 and 2010, respectively, is included in the accompanying statement of revenue, expenses and changes in net assets.

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**(6) Long-Term Debt**

A summary of long-term debt and capital lease obligations at June 30, 2011 and 2010 are as follows:

	<u>June 30,</u> <u>2010</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2011</u>	<u>Due Within</u> <u>One Year</u>
General obligation refunding bonds (A)	\$ 3,180,000	--	290,000	2,890,000	305,000
Deferred loss on bond refunding	(13,299)	--	(3,161)	(10,138)	(2,778)
General obligation bonds (B)	185,000	--	30,000	155,000	30,000
General obligation bonds (C)	3,245,000	--	120,000	3,125,000	125,000
Original issue discount on bonds	(7,495)	--	(464)	(7,031)	(464)
Note payable (D)	17,603	--	7,435	10,168	8,052
Note payable (E)	16,429	--	6,939	9,490	7,583
Capital lease obligation (F)	57,947	--	57,947	--	--
Capital lease obligation (G)	--	558,965	85,792	473,173	106,731
Capital lease obligation (H)	--	26,942	2,136	24,806	4,602
	<u>\$ 6,681,185</u>	<u>585,907</u>	<u>596,624</u>	<u>6,670,468</u>	<u>583,726</u>

  

	<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>

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, 2011, 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, 2011 and 2010 are as follows:

- (A) General Obligation Refunding bonds of the carrying interest rates of ranging from 3.25% 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 4.95% to 5.75%; 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.
- (C) General Obligation Bonds, Series 2006 of the carrying interest rates ranging from 3.85% 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.

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

- (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 \$-0- as of June 30, 2011.
- (G) Capital lease obligation with an imputed interest rate of 3.85%, due in monthly installments of \$10,257, including principal and interest, through September 2015, collateralized by leased equipment with a cost of \$558,965 and net book value of \$534,522 as of June 30, 2011.
- (H) Capital lease obligation with an imputed interest rate of 9.90%, due in monthly installments of principal and interest through December 2015, collateralized by leased equipment with a cost of \$26,942 and net book value of \$20,597 as of June 30, 2011.

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
2012	\$ 475,635	248,886	111,333	18,602
2013	478,885	231,486	115,994	13,941
2014	500,646	214,012	120,869	9,066
2015	521,548	195,290	125,968	3,967
2016	532,487	175,893	23,745	195
2017-2021	2,070,527	568,313	--	--
2022-2026	1,300,000	255,635	--	--
2027-2028	310,000	13,950	--	--
	<u>\$ 6,189,728</u>	<u>1,903,465</u>	<u>497,909</u>	<u>45,771</u>

**(7) Restricted Net Assets**

Restricted non-expendable net assets totaled \$3,042 in the years ended June 30, 2011 and 2010 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 \$6,431,620 and \$5,855,579 of unrestricted net assets in 2011 and 2010, respectively, \$2,107,309 and \$2,065,245 has been designated by the Medical Center's Board of Directors for the following:

	<u>2011</u>	<u>2010</u>
Designated for:		
Debt service	\$ 621,958	557,649
Capital improvements	1,302,225	1,400,000
Self-funded health insurance	183,126	107,596
	<u>\$ 2,107,309</u>	<u>2,065,245</u>

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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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 \$164,706 in 2011 and \$188,211 in 2010. Of these totals, \$57,865 and \$64,643 is included in physicians' clinic other expense in 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claims experience, no such accrual has been made.

**(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	\$ 13,560,007	14,534,447
Total expenses	<u>12,924,663</u>	<u>14,000,805</u>
Operating income	635,344	533,642
Nonoperating income	<u>55,492</u>	<u>130,820</u>
Excess of revenue over expenses before capital contributions	<u>\$ 690,836</u>	<u>664,462</u>

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

**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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**(12) Subsequent Event**

*Bond Refinancing*

Subsequent to year end, the Medical Center entered into an agreement with Smith Hayes Financial Services Corporation to refinance the General Obligation Refunding Bonds. The County of Howard in the State of Nebraska Hospital Refunding Bonds, Series 2011, in the amount of \$5,825,000 were issued in November 2011.

*Electronic Medical Records*

Subsequent to year end, the Medical Center entered into an agreement with Medical Information Technology, Inc. for approximately \$2,270,000, commencing November 2011, to implement an electronic health records system at the Medical Center. Payments are to be made through June 2014.

**Statistical Highlights**  
**For the Years Ended June 30, 2011 and 2010**

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	<u>2011</u>	<u>2010</u>
Patient days:		
Adult and pediatric -		
Medicare	589	590
All other	269	399
Swing bed	882	1,002
Nursing facility	1,375	1,712
	<u>3,115</u>	<u>3,703</u>
Adult and pediatric discharges -		
Medicare	189	192
All other	116	153
	<u>305</u>	<u>345</u>
Average length of stay:		
Adult and pediatric -		
Medicare	3.12 days	3.07 days
All other	2.32 days	2.61 days
Observation equivalent days	402	340
Laboratory procedures, chargeable	50,278	51,156
Surgeries	358	412
Radiology procedures	2,815	2,810
Full-time equivalent employees	134.84	135.72

**Net Patient Service Revenue**  
**For the Years Ended June 30, 2011 and 2010**

	2011			2010		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
<b>NURSING SERVICES:</b>						
Acute-routine services	\$ 667,416	126,359	793,775	754,440	126,915	881,355
Swing bed	656,596	--	656,596	779,522	--	779,522
Nursery	41,577	--	41,577	48,918	--	48,918
Outpatient Observation	1,865	359,390	361,255	2,725	345,260	347,985
	<u>\$ 1,367,454</u>	<u>485,749</u>	<u>1,853,203</u>	<u>1,585,605</u>	<u>472,175</u>	<u>2,057,780</u>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Operating and recovery rooms	63,945	404,415	468,360	66,736	475,865	542,601
Delivery room	26,935	8,521	35,456	38,070	20,881	58,951
Anesthesiology	85,750	296,142	381,892	96,019	333,000	429,019
Radiology	324,289	4,118,759	4,443,048	355,116	3,709,070	4,064,186
Laboratory	309,736	2,548,075	2,857,811	353,986	2,317,120	2,671,106
Blood Bank	20,748	46,419	67,167	25,600	30,475	56,075
Inhalation therapy	245,474	88,351	333,825	232,922	69,525	302,447
Physical therapy	157,328	479,071	636,399	183,373	500,512	683,885
Occupational therapy	79,352	15,332	94,684	71,081	21,787	92,868
Speech therapy	16,867	32,331	49,198	25,139	30,193	55,332
Electrocardiology	19,491	189,573	209,064	18,574	230,255	248,829
Medical and surgical supplies	223,246	487,671	710,917	290,765	506,243	797,008
Pharmacy	612,191	1,154,001	1,766,192	791,608	994,551	1,786,159
Outpatient clinics	--	66,161	66,161	--	59,405	59,405
Emergency room	5,411	669,570	674,981	7,380	632,061	639,441
Ambulance	--	--	--	1,350	--	1,350
Rural health clinic	--	2,796,232	2,796,232	--	2,776,497	2,776,497
Diabetic education	--	3,828	3,828	--	2,887	2,887
	<u>2,190,763</u>	<u>13,404,452</u>	<u>15,595,215</u>	<u>2,557,719</u>	<u>12,710,327</u>	<u>15,268,046</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<u>\$ 3,558,217</u>	<u>13,890,201</u>	<u>17,448,418</u>	<u>4,143,324</u>	<u>13,182,502</u>	<u>17,325,826</u>
<b>LESS:</b>						
Contractual allowances			(3,341,827)			(3,133,885)
Charity care services			(233,951)			(245,078)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>			<u>13,872,640</u>			<u>13,946,863</u>
<b>PROVISION FOR BAD DEBT</b>			<u>(429,968)</u>			<u>(421,882)</u>
<b>NET PATIENT SERVICE REVENUE</b>			<u><u>13,442,672</u></u>			<u><u>13,524,981</u></u>

**Operating Expenses**  
**For the Years Ended June 30, 2011 and 2010**

	2011			2010		
	Salaries and Wages	Professional Fees and Purchased Services	Total	Salaries and Wages	Professional Fees and Purchased Services	Total
<b>NURSING SERVICES:</b>						
Hospital	\$ 1,345,586	49,262	1,394,848	1,375,177	40,681	1,415,858
Nursery	5,037	21,647	26,684	4,778	6,151	10,929
	<u>1,350,623</u>	<u>70,909</u>	<u>1,421,532</u>	<u>1,379,955</u>	<u>46,832</u>	<u>1,426,787</u>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Rural health clinic	1,994,261	347,680	2,341,941	2,106,245	339,576	2,445,821
Laboratory	351,540	279,199	630,739	377,813	407,401	785,214
Radiology	270,232	485,195	755,427	248,879	532,462	781,341
Pharmacy	9,666	732,419	742,085	32,744	537,989	570,733
Anesthesiology	--	283,756	283,756	--	303,091	303,091
Physical therapy	167,737	78,989	246,726	121,139	153,004	274,143
Medical and surgical supplies	5,042	175,198	180,240	9,879	200,261	210,140
Emergency room	285,492	12,573	298,065	182,344	4,671	187,015
Operating and recovery room	141,329	13,633	154,962	138,740	20,196	158,936
Occupational therapy	614	61,235	61,849	528	60,463	60,991
Delivery room	39,056	9,566	48,622	45,680	7,665	53,345
Inhalation therapy	41,150	12,869	54,019	36,434	12,491	48,925
Blood bank	--	57,611	57,611	--	45,357	45,357
Electrocardiology	10,783	22,060	32,843	16,182	20,206	36,388
Speech therapy	326	25,249	25,575	276	27,564	27,840
Outpatient Clinic	28,617	1,860	30,477	21,570	1,372	22,942
Intravenous therapy	--	8,129	8,129	--	11,913	11,913
Diabetic education	3,264	335	3,599	3,304	--	3,304
Ambulance	--	2,753	2,753	--	910	910
	<u>3,349,109</u>	<u>2,610,309</u>	<u>5,959,418</u>	<u>3,341,757</u>	<u>2,686,592</u>	<u>6,028,349</u>
<b>GENERAL SERVICES:</b>						
Maintenance of plant	93,423	182,377	275,800	77,035	169,035	246,070
Operation of plant	--	222,057	222,057	--	217,053	217,053
Dietary	105,081	71,378	176,459	118,911	66,871	185,782
Housekeeping	154,778	19,679	174,457	155,705	19,992	175,697
Landry and Linen Service	39,398	15,455	54,853	33,330	27,365	60,695
	<u>392,680</u>	<u>510,946</u>	<u>903,626</u>	<u>384,981</u>	<u>500,316</u>	<u>885,297</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>1,122,739</u>	<u>796,415</u>	<u>1,919,154</u>	<u>1,173,393</u>	<u>823,636</u>	<u>1,997,029</u>
<b>NONDEPARTMENTAL:</b>						
Employee Benefits	--	1,487,753	1,487,753	--	1,340,646	1,340,646
Depreciation and amortization	--	951,851	951,851	--	897,819	897,819
Interest	--	281,329	281,329	--	290,951	290,951
	<u>--</u>	<u>2,720,933</u>	<u>2,720,933</u>	<u>--</u>	<u>2,529,416</u>	<u>2,529,416</u>
<b>TOTAL EXPENSES</b>	<u>\$ 6,215,151</u>	<u>6,709,512</u>	<u>12,924,663</u>	<u>6,280,086</u>	<u>6,586,792</u>	<u>12,866,878</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  
St. Paul, Nebraska:

We have audited the financial statements of Howard County Medical Center (Medical Center), a component unit of Howard County, Nebraska, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 16, 2011. 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.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2, that we consider to be significant deficiencies in internal control over financial reporting. 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.

*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 16, 2011.

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, LLP

Omaha, Nebraska,  
November 16, 2011.

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

**Schedule of Findings and Responses**  
**June 30, 2011**

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**FINANCIAL STATEMENT FINDINGS**

**Item 2011-1**

Significant Deficiency:

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 adjustments to the estimated amounts due to/from Medicare and Medicaid and the net realizable value of Medicare accounts receivable.

Cause: Accrual balances related to third-party payor estimates and the net realizable value of Medicare accounts receivable requiring estimation and judgment were incorrectly recorded.

Effect: Audit entries were required to adjust the estimated third-party payor settlements and net realizable value of Medicare accounts receivable.

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 2011-2**

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**  
A Component Unit of Howard County, Nebraska

**Prior Year Audit Findings**  
**June 30, 2011**

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No prior year audit findings which are not reported as current year audit findings.