

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

**FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL INFORMATION
AND
ACCOMPANYING INDEPENDENT AUDITORS' REPORTS**

YEAR ENDED JUNE 30, 2011

**BLAND & ASSOCIATES, P.C.
Certified Public Accountants**

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Assets	3
Statement of Activities	4
FUND FINANCIAL STATEMENTS	
Balance Sheet	5
Reconciliation of the Balance Sheet to the Statement of Net Assets	6
Statement of Revenues, Expenditures, and Change in Fund Balance	7
Reconciliation of the Statement of Revenues, Expenditures, and Change In Fund Balance to the Statement of Activities	8
NOTES TO FINANCIAL STATEMENTS	9 - 19
REQUIRED SUPPLEMENTAL INFORMATION	
Statement of Revenues, Expenditures, and Change in Fund Balance – Budget to Actual (Budgetary Basis)	20
Note to Required Supplemental Information	21
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	22 - 23

INDEPENDENT AUDITORS' REPORT

Lancaster County Board of Commissioners
Community Mental Health Center of Lancaster County
Lincoln, Nebraska

We have audited the accompanying financial statements of the governmental activities and the special revenue fund of the Community Mental Health Center of Lancaster County (CMHC), a special revenue fund for Lancaster County, Nebraska (County), as of and for the year ended June 30, 2011, which collectively comprise the CMHC's financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the County and CMHC. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note A, the financial statements present only the activity of the CMHC and do not purport to, and do not, present fairly the financial position of the County, as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the special revenue fund of CMHC as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2011, on our consideration of the CMHC'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

CMHC has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, but do not require to be part of, the financial statements.

INDEPENDENT AUDITORS' REPORT (Continued)

The budgetary comparison schedule is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BLAND + ASSOCIATES, P.C.

Omaha, Nebraska
November 2, 2011

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
STATEMENT OF NET ASSETS
June 30, 2011**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	7,232
Cash and Investments Held by County Treasurer		254,263
Accounts Receivable		109,670
Due From Other Governmental Agencies		431,229
Patient and Insurance Receivables, Net of Allowance for Doubtful Accounts of \$248,959		111,998
Taxes Receivable		1,151,485
Total Current Assets		<u>2,065,877</u>

CAPITAL ASSETS

Land		187,500
Land Improvements		18,602
Buildings		4,870,817
Equipment		150,163
Vehicles		562,035
		<u>5,789,117</u>
Less Accumulated Depreciation		(1,991,570)
Total Capital Assets		<u>3,797,547</u>

\$ 5,863,424

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$	62,040
Accrued Salaries		262,414
Deferred Grant Revenue		32,522
Total Current Liabilities		<u>356,976</u>

LONG-TERM LIABILITIES

Compensated Absences		953,488
Total Liabilities		<u>1,310,464</u>

COMMITMENTS AND CONTINGENCIES

-

NET ASSETS

Invested In Capital Assets, Net of Related Debt		3,797,547
Restricted		75,413
Total Net Assets		<u>4,552,960</u>

\$ 5,863,424

The accompanying notes to financial
statements are an integral part of these statements

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

EXPENSES

Mental Health Services			
Personal Services		\$	7,570,479
Supplies and Services			2,595,537
Depreciation			124,560
Total Expenses			<u>10,290,576</u>

PROGRAM REVENUES

Charges for Services	\$	324,117	
----------------------	----	---------	--

GENERAL REVENUES

State Revenues	\$	3,915,531	
Medicaid/Medicare/MRO Reimbursements		2,857,553	
Taxes		2,598,047	
Federal Grants		178,691	
Other Intergovernmental Revenues		132,847	
Interfund Transfer		13,987	
Other Income		156,710	
		<u>9,853,346</u>	<u>10,177,463</u>

CHANGE IN NET ASSETS (113,113)

NET ASSETS - BEGINNING OF YEAR, AS PREVIOUSLY STATED 4,567,148

PRIOR PERIOD ADJUSTMENT 98,925

NET ASSETS - BEGINNING OF YEAR, AS RESTATED 4,666,073

NET ASSETS - END OF YEAR \$ 4,552,960

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
BALANCE SHEET
June 30, 2011**

ASSETS

Cash and Cash Equivalents	\$	7,232
Cash and Investments Held by County Treasurer		254,263
Accounts Receivable		109,670
Due From Other Governmental Agencies		431,229
Patient and Insurance Receivables, Net of Allowance for Doubtful Accounts of \$248,959		111,998
Taxes Receivable		1,151,485
		1,151,485
	\$	2,065,877

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$	62,040
Accrued Salaries		262,414
Deferred Grant Revenue		32,522
Deferred Tax Revenue		89,104
Total Liabilities		446,080

COMMITMENTS AND CONTINGENCIES

-

FUND BALANCE

Restricted		1,390,897
Assigned		228,900
Total Fund Balance		1,619,797
	\$	2,065,877

The accompanying notes to financial
statements are an integral part of these statements

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Total Fund Balance - Governmental Fund	\$ 1,619,797
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets (net of depreciation) used in governmental activities are not financial resources and, therefore, not reported in the governmental funds:	3,797,547
Property tax revenues, not collected within 60 days of the fiscal year end are not financial resources and, therefore, not reported in the governmental funds:	89,104
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Accrued compensated absences	<u>(953,488)</u>
Total Net Assets - Governmental Activities	<u>\$ 4,552,960</u>

The accompanying notes to financial statements are an integral part of these statements

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE
Year Ended June 30, 2011**

REVENUES

State Revenues	\$ 3,915,531
Medicaid/Medicare/MRO Reimbursements	2,857,553
Taxes	2,607,868
Charges for Services	324,117
Federal Grants	178,691
Other Income	156,710
Other Intergovernmental Revenues	132,847
Total Revenues	<u>10,173,317</u>

EXPENDITURES

Mental Health Services	
Salaries	5,687,922
Employee Benefits	1,810,706
Contractual Services	905,492
Not-for-profit Contracts	579,499
Lease Expense	366,793
Contracted Health Services	218,198
Client Services	206,143
Communication	69,789
Insurance	54,410
Other Compensation	41,037
Energy Supplies	32,709
Miscellaneous Fees and Services	31,527
Repairs and Maintenance	25,065
Operating Supplies	21,094
Printing and Advertising	17,679
Transportation and Travel	14,182
Utilities	12,787
Medical Supplies	12,553
Office Supplies	10,104
Postage, Courier, and Freight	9,185
Total Expenditures	<u>10,126,874</u>

EXCESS REVENUES OVER EXPENDITURES	46,443
FUND BALANCE - BEGINNING OF THE YEAR, AS PREVIOUSLY STATED	1,672,279
PRIOR PERIOD ADJUSTMENT	(98,925)
FUND BALANCE - BEGINNING OF THE YEAR, AS RESTATED	<u>1,573,354</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,619,797</u></u>

The accompanying notes to financial
statements are an integral part of these statements

**COMMUNITY MENTAL HEALTH CENTER
 OF LANCASTER COUNTY
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGE IN FUND BALANCE
 TO THE STATEMENT OF ACTIVITIES
 Year Ended June 30, 2011**

Excess Revenues over Expenditures - Total Governmental Funds	\$	46,443
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Current year depreciation expense for total capital assets		(124,560)
Transfers of capital assets from the County to a governmental fund is recognized as a capital contribution in the statement of revenues, expenses, and changes in net assets and should be reported in the government-wide statement of activities as a transfer from one governmental activities fund to another governmental activities fund. However, because no current financial resource flow has taken place, no entry is required to the governmental funds.		13,967
Governmental funds recognize property tax revenues as revenues when received within 60 days of the end of the fiscal year. However, in the statement of activities, property tax revenues are recognized based on the total taxes levied. This is the amount of property tax revenues due to the County but not collected within 60 days of the fiscal year.		(9,821)
Accrued compensated absences are not financial resources and, therefore, the current years increase is not reported in the governmental funds		<u>(39,142)</u>
Change in Net Assets - Governmental Activities	\$	<u>(113,113)</u>

The accompanying notes to financial statements are an integral part of these statements

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2011**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Community Mental Health Center of Lancaster County (CMHC) is presented to assist in understanding CMHC's financial statements. The financial statements and notes are representations of CMHC's management who are responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

Reporting Entity

CMHC is included in the special revenue funds of Lancaster County, Nebraska (the County). CMHC is operated and maintained by the County with the use of federal, county, state, and other outside funds to provide services to people with mental illness who live within Lancaster County.

The financial statements present only the activity of CMHC and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of CMHC. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers of applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus/Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this period, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In the fund financial statements, the governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The CMHC considers all revenues reported in the governmental funds to be available if the revenues are earned. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources. Expenditures, such as principal and interest on general long-term debt, claims and judgments and compensated absences, are recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Applicable Standards

All Governmental Accounting Standards Board (GASB) pronouncements are applied, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Cash, Cash Equivalents, and Investments

The County Treasurer has pooled the cash resources of various County funds for investment purposes. Investments consist primarily of certificates of deposits, time deposits, and U.S. government obligations. These investments are stated at cost, which approximates market value, and are either insured by the Federal Deposit Insurance Corporation or collateralized with securities held by the financial institution's agent in the County's name. Interest earned on pooled funds is credited to the County General Fund. At June 30, 2011 CMHC had \$254,263 of cash and investments held by the County Treasurer.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient and Insurance Receivables

All patient and insurance receivables are shown net of an allowance for doubtful accounts. Patient and insurance receivables in excess of 60 days comprise the allowance for doubtful accounts. Management regularly reviews the patient and insurance receivables listings to evaluate a patient's credit history and current economic conditions. Patient and insurance receivables are written off when deemed uncollectible. Recoveries of contracts receivable previously written off are recorded when received.

Property Taxes

Based on the valuation as of January 1, property taxes are levied by the County Board of Commissioners on or before October 15 of each year for all political subdivisions in the County. Real estate and personal property taxes are each due December 31 of the year in which the property is appraised. One-half of the taxes become delinquent April 1 and August 1 of the following year.

Counties are permitted by the State Constitution to levy a tax up to \$.50 per \$100 of assessed valuation for general governmental services other than the payment of principal and interest on bonded debt. They may levy taxes in addition to the \$.50 limitation upon a vote of the people. The tax levy remained below the \$.50 limitation for 2011.

Also, the \$.50 limit may only be levied to provide services offered jointly with another government under an interlocal agreement. The County may share \$.15 of its levy authority with rural fire districts and other political subdivisions no longer having any levy authority.

Additionally, the legislature, as part of a property tax relief package, prohibited counties from adopting a budget containing "restricted funds" which are greater than 2.5% of the prior year budgeted restricted funds, plus the percentage change in valuation increase attributable to new construction and additions to buildings in excess of 2.5%. Restricted funds include property taxes, payment in-lieu-of taxes, and state aid less amounts budgeted for capital improvements and bonded indebtedness.

Capital Assets and Depreciation

Capital assets purchased or acquired by the CMHC, with a value over \$5,000, are recorded at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation (Continued)

Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Land Improvements	20
Buildings	50
Equipment	5 - 20
Vehicles	8

Compensated Absences

For accrued vacation leave, employees with less than 5 years of service are able to accrue 80 hours a year. Employees with more than 5 years of service, accrue additional vacation upon reaching 10, 15, and 20 years of service. An employee cannot accrue vacation leave in excess of 240 hours. Each status employee earns 104 hours of sick leave per year. An employee cannot accrue sick leave in excess of 2,080 hours.

Net Assets

In the government-wide financial statements, net assets represent the difference between total assets and total liabilities. Net assets invested in capital assets net of related debt consist of capital assets less accumulated depreciation and the net of outstanding balances of any debt used to finance those assets, such as capital leases and notes. Unrestricted net assets are those that do not meet the definition of net assets invested in capital assets net of related debt.

Fund Balance

As of June 30, 2011, CMHC has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable - such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

Committed - fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Commissioners (the County's highest level of decision-making authority),

Assigned - fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

Beginning fund balances for CMHC have been restated to reflect the classifications.

The details of the fund balances are included in the Balance Sheet (page 5). Restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the Board of Commissioners or the assignment has been changed by the Board of Commissioners. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

Budgets and Budgetary Accounting

The County follows these procedures in establishing the budgetary data reflected in the CMHC's financial statements in accordance with the statutory requirements of the Nebraska Budget Act.

On or before August 1, the County Board of Commissioners prepares and transmits a budget for each County fund showing the projected requirements, outstanding warrants, operating reserve, cash on hand at the close of the preceding fiscal year, projected revenue collected from sources other than property taxes and the amount to be raised by property taxation.

The budget is prepared on the cash receipts and disbursements basis of accounting. Encumbrances are also reflected as expenditures for budgetary purposes. At least one public hearing must be held by the County Board of Commissioners.

On or before September 20 each year, after the action of the State Board of Equalization and Assessment has been certified to the County Clerk, the budget, as revised, is adopted by the County Board of Commissioners, and the amounts provide therein are appropriated.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The fair value of the financial instruments of CMHC, consisting primarily of accounts receivable, accounts payable, and accrued liabilities, does not differ materially from the aggregate carrying values reflected in the accompanying Statements of Net Assets.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates employed. The most significant estimates include useful lives of capital assets and compensated absences. Actual results may differ from those estimates.

Income Taxes

CMHC qualifies as a tax-exempt organization under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is required.

Subsequent Events

Management has evaluated subsequent events through November 2, 2011, which is the date the financial statements were available to be issued.

NOTE B – CASH AND CASH EQUIVALENTS

On June 30, 2011, the carrying amount of the CMHC's cash was \$261,495, all of which was insured by the Federal Depository Insurance Corporation.

Cash and certificates of deposit are presented in the financial statements at fair market value. The deposits are categorized by the level of credit risk. Category 1 includes deposits fully insured or collateralized with securities held by a financial institution in CMHC's name. Category 2 includes collateralized deposits with securities held in the name of the financial institutions' trust department or agent for CMHC. Category 3 is uncollateralized deposits.

	1	2	3	Carrying Amount	Market Value
Checking Accounts	<u>\$ 261,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 261,495</u>	<u>\$261,495</u>

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE C – DUE FROM OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies consisted of the following as of June 30, 2011:

Medicaid/Medicare/MRO Reimbursements	\$ 134,635
State of Nebraska	115,459
Federal	181,135
Total Due From Other Governmental Agencies	<u>\$ 431,229</u>

NOTE D – CAPITAL ASSETS

The changes in capital assets designated for the operation of the CMHC are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 187,500	\$ -	\$ -	\$ 187,500
Land improvements	18,602	-	-	18,602
Buildings	4,870,817	-	-	4,870,817
Equipment	150,163	-	-	150,163
Vehicles	544,462	59,863	(42,290)	562,035
	<u>5,771,544</u>	<u>59,863</u>	<u>(42,290)</u>	<u>5,789,117</u>
Less accumulated depreciation	(1,863,404)	(169,112)	40,946	(1,991,570)
	<u>\$3,908,140</u>	<u>\$ (109,249)</u>	<u>\$ (1,344)</u>	<u>\$3,797,547</u>

The County transferred equipment with a cost of \$59,863, and accumulated depreciation of \$44,552. In addition there was depreciation expense of \$124,560. CMHC transferred vehicles with a cost of \$42,290 and accumulated depreciation of \$40,946 to the County during the year ended June 30, 2011.

NOTE E – LONG-TERM LIABILITIES

CMHC's long-term liabilities as of June 30, 2011 consisted of the following:

	Beginning Balance	Increase	Decrease	Ending Balance
Compensated absences	<u>\$ 914,346</u>	<u>\$ 39,142</u>	<u>\$ -</u>	<u>\$ 953,488</u>

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE F – OPERATING LEASE COMMITMENTS

CMHC maintains operating leases for various apartments used to house individuals with mental illness, as well as office space used for operations. All leases are renewable in terms of one year or less. Lease expense was \$366,793 for the year ended June 30, 2011.

NOTE G – EMPLOYEES' RETIREMENT PLAN

Plan Description – Post Employment Health Plan

All eligible employees of CMHC are covered under the County's retirement plans, Lancaster County Nebraska CB PEHP and Lancaster County Nebraska Non-CB PEHP, as administered by Nationwide Retirement Solutions. Separate actuarial valuation of the plans' assets is not performed for the individual participating entities. The Board of Commissioners has adopted the provisions of Section 23-1118, R.R.S. 1943, a Nebraska State Statute, which provides any county having a population of more than 100,000 inhabitants the authority to provide retirement benefits to its employees and establish a defined contribution retirement plan.

The County sets aside \$25 per pay period for each eligible employee. Employees are not required to contribute to this plan. Contributions to this retirement plan by CMHC on behalf of the participating employees amounted to \$79,782 for the year ended June 30, 2011.

Plan Description – Retirement Plan

The pension program operates in compliance with all state and federal statutes, particularly Nebraska State Statute 30-3209. CMHC participates in the County's program. The County's pension funds are invested according to a plan developed and reviewed annually by the County. The Plan is titled Lancaster County, Nebraska Employees Retirement Plan and is administered by Prudential. The plan defines the purposes of the assets, identifies the parties responsible for managing the investment process, establishes both broad and specific written guidelines for the investment of the fund's assets, and establishes criteria to monitor and evaluate the performance of the investment managers. The plan authorizes investments in common and preferred stocks, corporate bonds, cash-equivalent securities, certificates of deposits of insured institutions, money market funds, and government bonds. They can be in mutual funds or privately managed accounts.

The plan automatically covers substantially all permanent employees who have attained age 25 and completed one year of continuous service. Upon attaining age 21 and after completing six months of continuous service, employees may voluntarily enter the plan. The employee has the choice of whether or not to participate in the plan if the employee has attained age 55 prior to the date of employment.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE G – EMPLOYEES’ RETIREMENT PLAN (Continued)

Plan Description – Retirement Plan (Continued)

The County is required to contribute 150% of each participant’s mandatory contribution. The participant’s mandatory contribution is 5.2% of the participant’s salary. The combined contributions cannot exceed 13% of earned income.

The employees’ and employer’s contributions are maintained in separate accounts. The employee account is always fully vested. The employer account vests at 20% per year for year three through seven in the plans. Total payroll for the year ended June 30, 2011 was \$5,687,922. Several different payment options, based upon the full accumulated value of participant contributions and the vested portion of employer contributions, are available to the participant upon death, disability, early retirement at age 50, or normal retirement at age 55, with ten consecutive years of participation in the plans.

The plan has fixed income securities guidelines: a maximum of 2% of any single corporate issuer and 5% for other issuers; no limit on fixed income treasury or agency issues of the U.S. government. Investments in the employees’ retirement system are valued at the carried amount, which approximates fair value. CMHC’s financial statements are prepared using the accrual basis of accounting.

Employer and plan member contributions are recognized in the period that the contributions are due. For CMHC, total employer contributions were \$264,041 and total employee contributions were \$396,061 for the year ended June 30, 2011.

At June 30, 2011, the balances of investments in the employees’ retirement system totaled \$100,038,489. The County’s allocation of investments is as follows:

Investment Type	Fair Value	Concentration
Stable Value	\$ 35,096,234	35.08%
Fixed Income - Domestic	6,361,938	6.36%
Balanced - Blend	1,769,915	1.77%
Large Cap	33,288,507	33.28%
Mid Cap	10,231,724	10.23%
Small Cap	6,179,631	6.18%
Growth & Income	6,364,347	6.36%
Domestic Stock - Blend	746,193	.75%
Total	<u>\$ 100,038,489</u>	<u>100.00%</u>

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE G – EMPLOYEES' RETIREMENT PLAN (Continued)

Method Used to Value Investments

The plans' investments, as reported in the County's fiduciary fund in the combined financial statements, are reported at fair value.

NOTE H – RISK MANAGEMENT

CMHC is included in the insurance coverage of the County. CMHC is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets, errors or omissions; injuries to employees; and natural disasters. These risks of loss are covered by various commercial insurance policies (with various deductibles), with the exception of workers' compensation and general liability. The County is self-insured for up to \$900,000 per occurrence for workers' compensation risks and up to \$250,000 per occurrence for general liability risks.

The self-insurance programs are administered by the County's Workers' Compensation and Risk Manager. Commercial insurance covers the excess of the self-insured amount to the maximum of \$1,000,000 for employers' liability and statutory limits for workers' compensation. The general liability coverage and professional liability coverage for CMHC is provided by Midwest Medical Insurance Company (MMIC). The general liability coverage is written on a \$1,000,000 per occurrence basis with an annual aggregate of \$3,000,000. MMIC also provides umbrella liability limits of \$4,000,000 over the general liability for a total of \$5,000,000 per occurrence and \$7,000,000 aggregate. There are no deductibles for these policies.

The County utilizes the services of an actuary to prepare an analysis of the self-insured workers' compensation and general liability risks. The analysis is used to assist the County with its financial planning, budgeting, and management of the self-insurance programs. The programs were funded on a cash basis with annual premiums charged to the government fund types, including CMHC, based on past experience of incurred losses and remitted to the Workers' Compensation Loss, and Self-Insurance internal service funds of the County. Settled claims have not exceeded commercial coverage for the last three years.

CMHC has not developed an estimated liability for pending and incurred but not reported claims at June 30, 2011, due to claims being paid by the Workers' Compensation and the Other Self-Insurance funds at the County level. Accounting principles generally accepted in the United States of America require that an estimated liability be developed for pending and incurred but not reported claims; however, there were no such claims pending at year end.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2011**

NOTE I – FEDERAL GRANT REVENUES

Federal grant revenues on the cash basis as shown on pg. 20 consisted of the following as of June 30, 2011:

<u>U.S. Department of Health and Human Services</u>			
Region V - Health	\$	20,000	
Region V - Homeless Grant		32,500	
National Institute of Mental Health		74,693	
Decision Science in Rehabilitation		<u>9,000</u>	\$ 136,193
<u>U.S. Department of Justice</u>			
Bureau of Justice Assistance		<u>44,995</u>	44,995
<u>U.S. Department of Agriculture</u>			
National School Lunch Program		<u>30,025</u>	<u>30,025</u>
Total Federal Grant Revenues			<u>\$ 211,213</u>

NOTE J – PRIOR PERIOD ADJUSTMENT

Deferred Tax Revenue at July 1, 2010 has been restated to correct reporting classifications in the previously issued financial statements. The cumulative effect in the Government-Wide Financial Statements for the year ended June 30, 2010 resulted in an overstatement of Deferred Tax Revenue and an understatement of revenue totaling \$98,925. The cumulative effect in the Governmental Fund Financial Statements for the year ended June 30, 2010 resulted in an understatement of Deferred Tax Revenue and an overstatement of revenue totaling \$98,925.

	Beginning balance (As previously reported)	Prior period adjustment	Beginning balance (as restated)
Government-Wide Financial Statements			
Deferred Tax Revenue	\$ (98,925)	\$ 98,925	\$ -
Governmental Fund Financial Statements			
Deferred Tax Revenue	\$ -	\$ (98,925)	\$ (98,925)

REQUIRED SUPPLEMENTAL INFORMATION

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCE - BUDGET TO ACTUAL (Budgetary Basis)
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance
REVENUES				
State Revenues	\$ 3,458,741	\$ 3,458,741	\$ 3,903,449	\$ 444,708
Medicaid/Medicare/MRO Reimbursements	2,804,510	2,804,510	2,787,988	(16,522)
Taxes	2,720,108	2,720,108	2,650,758	(69,350)
Charges for Services	492,700	492,700	327,828	(164,872)
Federal Grants	193,211	193,211	211,213	18,002
Other Income	127,750	127,750	151,765	24,015
Other Intergovernmental Revenues	117,477	117,477	132,847	15,370
Total Revenues	9,914,497	9,914,497	10,165,848	251,351
EXPENDITURES				
Mental Health Services				
Salaries	5,905,091	5,905,091	5,687,922	217,169
Employee Benefits	1,790,744	1,790,744	1,810,706	(19,962)
Other Contracted Services	707,566	707,566	898,684	(191,118)
Not-for-profit Contracts	585,730	585,730	579,499	6,231
Rent	366,794	366,794	366,793	1
Contracted Health Services	191,000	191,000	230,586	(39,586)
Client Services	194,690	194,690	213,163	(18,473)
Communication	79,488	79,488	69,845	9,643
Insurance	22,685	55,185	54,410	775
Miscellaneous Fees and Services	38,545	38,545	35,812	2,733
Other Compensation	38,317	38,317	47,673	(9,356)
Energy Supplies	34,300	34,300	31,704	2,596
Repairs and Maintenance	20,350	20,350	23,399	(3,049)
Operating Supplies	32,390	32,390	21,094	11,296
Printing and Advertising	22,895	22,895	18,234	4,661
Transportation and Travel	15,785	15,785	14,182	1,603
Utilities	14,800	14,800	13,940	860
Medical Supplies	11,650	11,650	12,553	(903)
Office Supplies	12,685	12,685	10,104	2,581
Postage, Courier, and Freight	11,550	11,550	9,185	2,365
Equipment	30,000	30,000	-	30,000
Total Expenditures	10,127,055	10,159,555	10,149,488	10,067
EXCESS (DEFICIENCY) OF RECEIPTS OVER EXPENDITURES - BUDGETARY BASIS	\$ (212,558)	\$ (245,058)	16,360	\$ 261,418
ADJUSTMENTS REQUIRED UNDER ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA				
To Adjust Receipts for Accruals (Net)			7,469	
To Adjust Expenditures for Accruals (Net)			22,614	
EXCESS OF REVENUES (MODIFIED ACCRUAL BASIS) OVER EXPENDITURES			\$ 46,443	

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTE TO REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2011**

**NOTE A – STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND
BALANCE – BUDGET TO ACTUAL (BUDGETARY BASIS)**

Basis of Accounting

The accompanying Statement of Revenues, Expenditures, and Change in Fund Balance – Budget to Actual is presented on the cash basis of accounting which is the CMHC's budgetary basis of accounting.

Budget Law

The County is required by state law to hold public hearings and adopt annual budgets for all funds on the budgetary basis of accounting. Total expenditures for each fund may not exceed the total budgeted expenditures. Any revisions to the adopted budget of total expenditures to any fund require a public hearing.

**INDEPENDENT AUDITORS' 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***

INDEPENDENT AUDITORS' 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

Lancaster County Board of Commissioners
Community Mental Health Center of Lancaster County
Lincoln, Nebraska

We have audited the financial statements of the governmental activities and the special revenue fund of the Community Mental Health Center of Lancaster County (CMHC) as of and for the year ended June 30, 2011, which collectively comprise the CMHC's financial statements and have issued our report thereon dated November 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CMHC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CMHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CMHC'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 statements 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CMHC's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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

INDEPENDENT AUDITORS' 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 (Continued)

of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters involving the internal control over financial reporting, which we have reported to the management of CMHC in a separate letter dated November 2, 2011.

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

BLAND + ASSOCIATES, P.C.

Omaha, Nebraska
November 2, 2011