

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY

FINANCIAL STATEMENTS

JUNE 30, 2006

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
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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 of the Community Mental Health Center of Lancaster County (CMHC), a special revenue fund of Lancaster County, Nebraska (County), as of and for the year ended June 30, 2006, which collectively comprise the CMHC's basic 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 an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the activity of Community Mental Health Center of Lancaster County and do not purport to, and do not, present fairly the financial position of Lancaster County, Nebraska, as of June 30, 2006, 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 financial position of Community Mental Health Center of Lancaster County as of June 30, 2006, and the changes in financial position thereof for the year 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 August 29, 2006, on our consideration of the Community Mental Health Center of Lancaster County'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.

Community Mental Health Center of Lancaster County has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison schedule is not a required part of the basic 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.

Dana F Cole + Company, LLP

Lincoln, Nebraska
August 29, 2006

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2006

ASSETS

Current Assets

Cash	3,425
Cash held by County Treasurer	67,809
Amount due from other governmental agencies	287,329
Patient and insurance receivable, less allowance for doubtful accounts of \$196,886	94,867
Taxes receivable	<u>1,177,528</u>
Total current assets	<u>1,630,958</u>

Fixed Assets

Land	187,500
Land improvements	18,602
Buildings	4,870,817
Equipment	155,540
Vehicles	<u>277,159</u>
	5,509,618
Less accumulated depreciation	<u>(1,192,468)</u>
Total fixed assets - net	<u>4,317,150</u>

TOTAL ASSETS	<u>5,948,108</u>
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CURRENT LIABILITIES

Accounts payable	143,763
Accrued expenses	5,048
Accrued salaries and compensated absences	380,734
Current portion of leases payable	<u>12,154</u>
Total current liabilities	<u>541,699</u>

LONG-TERM LIABILITIES

Leases payable, net of current portion	<u>18,922</u>
Total long-term liabilities	<u>18,922</u>

TOTAL LIABILITIES	<u>560,621</u>
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NET ASSETS

Invested in capital assets, net of related debt	4,286,074
Unrestricted	<u>1,101,413</u>

TOTAL NET ASSETS	<u>5,387,487</u>
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See accompanying notes to financial statements.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

EXPENSES

Health and Public Welfare	
Personal services	6,190,231
Materials and services	2,018,171
Depreciation	124,044
Payment to Region V	<u>578,725</u>
Total program expenses	<u>8,911,171</u>

PROGRAM REVENUES

Charges for services	<u>1,003,713</u>
Net program expense	<u>7,907,458</u>

GENERAL REVENUES

Property taxes	2,775,481
Interest and penalties on taxes	6,777
Federal grants	405,343
State revenues	4,779,279
Other intergovernmental revenues	32,186
Reimbursements and refunds	72,306
Other income	<u>54,424</u>
Total general revenues	<u>8,125,796</u>

EXCESS REVENUES OVER EXPENDITURES 218,338

NET ASSETS, beginning of year 4,364,518

PRIOR PERIOD ADJUSTMENT (Note 11) 804,631

NET ASSETS, end of year 5,387,487

See accompanying notes to financial statements.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
BALANCE SHEET
JUNE 30, 2006

ASSETS

ASSETS

Cash	3,425
Cash held by County Treasurer	67,809
Amount due from other governmental agencies	287,328
Patient and insurance receivable, less allowance for doubtful accounts of \$196,886	94,867
Taxes receivable	<u>1,051,887</u>

TOTAL ASSETS 1,505,317

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES

Accounts payable	143,763
Accrued expenses	5,048
Accrued salaries and compensated absences	<u>380,734</u>
Total current liabilities	<u>529,545</u>

FUND BALANCE

Unrestricted	<u>975,772</u>
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TOTAL LIABILITIES AND FUND BALANCE 1,505,317

See accompanying notes to financial statements.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Amounts reported for governmental activities
in the statement of net assets are different
because:

Fund balance - total governmental funds	975,772
Capital assets, net of related accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	4,317,150
Property tax revenues, not collected within 60 days of the fiscal year end are not financial resources and, therefore, are not reported in the governmental funds.	125,641
Long-term liabilities, including leases payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(31,076)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES 5,387,487

The notes to the financial statements are an integral part of this statement.

COMMUNITY MENTAL HEALTH CENTER
 OF LANCASTER COUNTY
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2006

REVENUES

Taxes	2,732,449
Interest and penalties on taxes	6,777
Federal grants	405,342
State revenues	4,779,279
Other intergovernmental revenues	32,186
Charges for services	1,003,713
Reimbursements and refunds	72,306
Other income	54,424
Total revenues	<u>9,086,476</u>

EXPENDITURES

Mental Health Services	
Salaries	4,629,130
Employee benefits	1,561,101
Office supplies	10,691
Operating supplies	43,603
Energy supplies	20,720
Contractual services	1,051,089
Transportation and travel	22,231
Communication	59,938
Printing and advertising	33,509
Client services	323,474
Miscellaneous fees and services	47,449
Insurance	69,565
Utilities	14,234
Repairs and maintenance	30,685
Rent	260,043
Equipment	35,514
Debt service	12,995
Payment to Region V	578,725
Total Mental Health Services	<u>8,804,695</u>

EXCESS REVENUES OVER EXPENDITURES	281,781
FUND BALANCE, beginning of year	(40,266)
PRIOR PERIOD ADJUSTMENT (Note 11)	<u>734,257</u>
FUND BALANCE, end of year	<u>975,772</u>

COMMUNITY MENTAL HEALTH CENTER
 OF LANCASTER COUNTY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	281,781
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$- 0 -) were exceeded by depreciation (\$124,044) in the current period.</p>	(124,044)
<p>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 city but not collected within 60 days of the fiscal year. This amount includes the current accrual (\$125,641) less the prior year accrual (\$82,608).</p>	43,033
<p>Lease payments are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of lease payments in the current period (\$12,995) and additional adjustments (\$5,771) less lease interest expense (\$1,198)</p>	<u>17,568</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>218,338</u>

See accompanying notes to financial statements.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Community Mental Health Center of Lancaster County (CMHC).

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity

CMHC is included in the special revenue funds of Lancaster County, Nebraska (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 Lancaster County, Nebraska, as of June 30, 2006, 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.

Government-Wide and Fund Financial Statements

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. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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 or 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*.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting/Financial Statement Presentation

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 revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Grants

Reimbursement driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenue are recorded at the time of receipt or earlier, if measurable and available.

Client Fees and Insurance and Welfare Reimbursements

Client fees and insurance and welfare reimbursements are recognized in the period the service is provided if the amount is "measurable" and "available" to pay liabilities of the period. Otherwise, the revenue is recognized when received.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract Reimbursements and Other Income

Contract reimbursements and other income are recorded as revenue when received in cash because they are generally not measurable until actually received.

Patient and Insurance Receivables

All patient and insurance receivables are shown net of an allowance for uncollectibles. Patient and insurance receivables in excess of 30 days comprise the trade accounts receivable allowance for uncollectibles.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with CMHC is based on the "current financial resources" measurement focus. Therefore, capital assets are recorded as expenditures when purchased. The County capitalized capital assets as follows:

Capital assets purchased or acquired by the County, 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. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Building and land improvements	20 years
Vehicles	8 years
Machinery and equipment	5 - 20 years

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 tax and 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.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting (Continued)

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

Property Taxes

Based on the valuation as of January 1, property taxes are levied by the County Board on or before November 1 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 \$0.50 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 \$0.50 limitation upon a vote of the people. The tax levy remained below the \$0.50 limitation for 2006.

Also, \$0.05 of the \$0.50 limit may only be levied to provide services offered jointly with another government under an interlocal agreement. The County may share \$0.15 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 building in excess of 2.5%. Restricted funds include property taxes, payments in-lieu-of taxes, and state aid less amounts budgeted for capital improvements and bonded indebtedness.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental fund types. At the end of each budget period, unencumbered, unexpended appropriations lapse. Appropriations in the governmental fund types are charged for encumbrances when commitments are made. Fund balances are reserved for outstanding encumbrances, which serve as authorization for expenditures in the subsequent year. There were no encumbrances as of June 30, 2006.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Accrued vacation pay that is expected to be paid with available financial resources is reported as an expense and a liability.

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.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. CASH ON DEPOSIT

In 2005, CMHC adopted the provisions of GASB Statement 40, Deposit and Investment Risk Disclosure. This new standard revised the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Adoption of GASB 40 had no effect on net assets and change in net assets in the prior or current year.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. CMHC's deposit policy for custodial credit risk requires compliance with the provisions of state law.

As of June 30, 2006, CMHC's cash deposits were fully insured.

NOTE 3. CASH HELD BY COUNTY TREASURER

The County Treasurer has pooled the cash resources of various funds for investment purposes. Investments consist primarily of certificates of deposit, time deposits and U.S. government obligations. These investments are stated at cost, which approximates market, 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, 2006, CMHC had \$67,809 of cash held by the County Treasurer.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 4. OPERATING LEASE COMMITMENTS

CMHC maintains month-to-month operating leases for various apartments used to house people with mental illness, as well as office space used for operations. Lease expense was approximately \$75,320 for the year ended June 30, 2006.

NOTE 5. LEASES PAYABLE

CMHC has entered into a lease agreement for vehicle purchases with unrelated parties at a 3.00% interest rate. Assets under capital leases totaled \$48,645.

The following is a schedule of future minimum lease payments together with the net present value of the minimum lease payments as of June 30, 2006.

Year Ending <u>June 30,</u>	
2007	12,995
2008	12,995
2009	<u>6,498</u>
Total minimum lease payments	32,488
Less amounting representing interest	<u>1,412</u>
Present value of minimum lease payments	<u>31,076</u>

NOTE 6. FIXED ASSETS

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

	Balance June 30, <u>2005</u>	<u>Additions</u>	Reclassi- <u>fications</u>	<u>Deletions</u>	Balance June 30, <u>2006</u>
Land			187,500		187,500
Land improvements	18,602				18,602
Building	5,058,317		(187,500)		4,870,817
Equipment	155,540				155,540
Vehicles	<u>272,858</u>	<u>48,645</u>		(44,344)	<u>277,159</u>
	5,505,317	48,645		(44,344)	5,509,618
Less accumulated depreciation	<u>(1,100,533)</u>	<u>(124,044)</u>	<u>(12,235)</u>	<u>44,344</u>	<u>(1,192,468)</u>
	<u>4,404,784</u>	<u>(75,399)</u>	<u>(12,235)</u>	<u>- 0 -</u>	<u>4,317,150</u>

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 7. DUE FROM OTHER GOVERNMENT AGENCIES

Due from other government agencies consisted of the following as of June 30, 2006:

Region V	100,172
State of Nebraska	184,449
Federal	<u>2,708</u>
Total due from other government agencies	<u>287,329</u>

NOTE 8. EMPLOYEES' RETIREMENT PLAN

Plan Description

All eligible employees of CMHC are covered under the County's retirement plan. A separate actuarial valuation of the plan 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 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. 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 employee 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 plan. Total payroll for the year ended June 30, 2006 was approximately \$4,629,130. Covered payroll for the year ended June 30, 2006 was approximately \$3,725,961. 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, normal retirement at age 60, or early retirement at age 55, with ten consecutive years of participation in the plan. Expenses in the form of contributions to this retirement plan by CMHC on behalf of the participating employees amounted to \$290,625 for the year ended June 30, 2006.

Basis of Accounting

The plan financial statements are prepared on the cash basis of accounting. Contributions are recorded when received. Benefits are recorded when paid.

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 8. EMPLOYEES' RETIREMENT PLAN (Continued)

Method Used to Value Investments

Plan investments, as reported in the County's combined financial statements, are reported at fair value.

NOTE 9. 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 \$600,000 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 and \$5,000,000 for general liability.

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 governmental 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.

NOTE 10. GRANT REVENUES

Grant revenues consisted of the following as of June 30, 2006:

Region V - Health	20,000
Region V - Flex Fund	9,484
Region V - Mental Health Programs	2,425,588
Region V - Alcohol Evaluation	126,572
Region V - Homeless Grant	32,500
Region V - Tobacco Grant	<u>244,483</u>
Total Region V grants	<u>2,858,627</u>

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE 10. GRANT REVENUES (Continued)

Community Health Endowment of Lincoln Various grants	<u>9,612</u>
Dept. of Health and Human Services Jail Diversion Program	<u>213,803</u>
Total grant income	<u>3,082,042</u>

NOTE 11. PRIOR PERIOD ADJUSTMENT

The following adjustments have been made to correctly present the activity of CMHC:

Statement of Activities (page 4)

Reclassification of beginning depreciation on fixed assets (see Note 6)	(12,235)
Remove receivable for 2005 sale of building (building was not CMHC's)	(184,345)
Property taxes receivable for the year ended June 30, 2005 - GAAP basis	<u>1,001,211</u>
Total adjustments	<u>804,631</u>

Statement of Revenues, Expenses and Changes
in Fund Balances (page 7)

Remove receivable for 2005 sale of building (building was not CMHC's)	(184,345)
Property taxes receivable for the year ended June 30, 2005 - Modified Accrual basis	<u>918,602</u>
Total adjustments	<u>734,257</u>

REQUIRED SUPPLEMENTAL INFORMATION

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>
REVENUES		
Taxes	2,714,352	2,599,163
Interest and penalties on taxes		6,777
Federal grants	479,171	405,342
State revenues	4,714,703	4,804,988
Other intergovernmental revenues	32,186	32,186
Charges for services	1,155,300	1,026,903
Reimbursements and refunds	75,000	72,306
Other income	21,619	54,424
Total revenues	<u>9,192,331</u>	<u>9,002,089</u>
 EXPENDITURES		
Mental Health Services		
Salaries	4,643,738	4,617,533
Employee benefits	1,572,904	1,561,101
Office supplies	13,900	10,593
Operating supplies	50,750	43,631
Energy supplies	20,000	22,945
Contractual services	1,162,977	1,104,183
Transportation and travel	25,855	22,644
Communication	70,355	60,433
Printing and advertising	49,170	33,695
Client services	362,625	333,984
Miscellaneous fees and services	43,560	40,059
Insurance	71,350	65,221
Utilities	16,550	14,280
Repairs and maintenance	17,383	29,495
Rent	274,037	260,043
Equipment	88,400	60,494
Debt service	26,094	12,995
Payment to Region V	578,721	578,725
Total Mental Health Services	<u>9,088,369</u>	<u>8,872,054</u>
 EXCESS REVENUES OVER EXPENDITURES	 103,962	 130,035

COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 1. SCHEDULES OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
BALANCE - CASH BASIS - BUDGET AND ACTUAL

Basis of Accounting

The accompanying statement of revenues, expenditures and changes in fund balance - budget and actual are presented on the budgetary basis of accounting. This basis is consistent with the basis of accounting used in preparing the basic financial statements.

Budget Law

The Entity 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.

Reconciliation between Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual and Statement of Revenues, Expenditures and Changes in Fund Balance

Excess revenues over expenditures, per page 7	281,781
Removal of accrual adjustments:	
Taxes receivable	(133,286)
Accounts receivable	48,899
Compensated absences	11,597
Accounts payable	(55,766)
Prepaid insurance	4,344
Encumbrances for vehicles	(24,980)
Cleaning services	<u>(2,554)</u>
Total adjustments	<u>(151,746)</u>
Excess revenues over expenditures, per page 18	<u>130,035</u>

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CERTIFIED PUBLIC ACCOUNTANTS

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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 of the Community Mental Health Center of Lancaster County as of and for the year ended June 30, 2006, which collectively comprise Community Mental Health Center of Lancaster County's basic financial statements and have issued our report thereon dated August 29, 2006. 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 Community Mental Health Center of Lancaster County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Dana J Cole + Company, LLP

Lincoln, Nebraska
August 29, 2006