

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**
(A Special Revenue Fund of Lancaster County, Nebraska)

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

AND

INDEPENDENT AUDITOR'S REPORT

*COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY*
(A Special Revenue Fund for Lancaster County, Nebraska)

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

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**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

FINANCIAL STATEMENTS

Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet - Governmental Fund.....	5
Reconciliation of the Balance Sheet for Governmental Funds to the Statement of Net Position	6
Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Fund.....	7
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Funds to the Statement of Activities	8
Notes to Financial Statements	9 - 17
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget to Actual (Budgetary Basis).....	18
Notes to Required Supplementary Information.....	19
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	20 - 21

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INDEPENDENT AUDITOR'S REPORT

Lancaster County Board of Commissioners
Community Mental Health Center of Lancaster County

Report on the Financial Statements

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 of Lancaster County, Nebraska (County), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the CMHC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and special revenue fund of the CMHC as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the activities of the CMHC and do not purpose to, and do not, present fairly the financial position of County as of June 30, 2013, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013 on our consideration of the CMHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the CMHC's internal control over financial reporting and compliance.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 26, 2013
Wichita, KS

**Community Mental Health Center
of Lancaster County**

Statement of Net Position

June 30, 2013

**Governmental
Activities**

Assets

Cash and cash equivalents	\$ 9,291
Cash and investments held by County Treasurer	886,625
Accounts receivable	57,976
Due from other governmental agencies	394,570
Patient and insurance receivables, net of allowance for doubtful accounts of \$548,458	247,784
Taxes receivable	675,743
Capital assets:	
Land	187,500
Other capital assets, net of depreciation	3,362,949
Total assets	<u>5,822,438</u>

Liabilities

Accounts payable	127,177
Accrued salaries	250,094
Deferred grant revenue	7,308
Non-current liabilities:	
Due within one year	610,000
Due in more than one year	260,771
Total liabilities	<u>1,255,350</u>

Net Position

Net investment in capital assets	3,550,449
Restricted	1,016,639
Total net position	<u>\$ 4,567,088</u>

The accompanying notes are an integral part
of the basic financial statements

**Community Mental Health Center
of Lancaster County**
Statement of Activities
Year Ended June 30, 2013

Functions/ Programs	Expenses	Program Revenues		Governmental Activities
Governmental Activities		Charges for Services	Operating Grants and Contributions	
Mental health services:	\$ 9,221,211	\$ 7,220,403	\$ 79,293	\$ (1,921,515)
 General revenues				
Taxes				
Property tax				1,554,511
In-lieu-of tax				51,129
MV prorated tax				5,069
State revenues				96,761
Other intergovernmental revenues				44,166
Other income				136,494
Total general revenues				1,888,130
Change in net position				(33,385)
Net position - beginning of year				4,600,473
Net position - end of year				\$ 4,567,088

The accompanying notes are an integral part
of the basic financial statements

**Community Mental Health Center
of Lancaster County**
Balance Sheet - Governmental Fund
June 30, 2013

Assets

Cash and cash equivalents	\$	9,291
Cash and investments held by County Treasurer		886,625
Accounts receivable		57,976
Due from other governmental agencies		394,570
Patient and insurance receivables, net of allowance for doubtful accounts of \$548,458		247,784
Taxes receivable		675,743
		\$ 2,271,989
		\$ 2,271,989

Liabilities and fund balance

Liabilities

Accounts payable	\$	127,177
Accrued salaries		250,094
Deferred grant revenue		7,308
Deferred tax revenue		46,860
Total liabilities		431,439

Fund balance

Restricted		1,525,499
Assigned		315,051
		1,840,550
		\$ 2,271,989

The accompanying notes are an integral
part of the basic financial statements

**Community Mental Health Center
of Lancaster County**
Reconciliation of the Balance Sheet for
Governmental Funds to the
Statement of Net Position
June 30, 2013

Total fund balance - governmental funds \$ 1,840,550

Amounts reported for governmental activities in the Statement of
Net Position are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, not reported in the governmental funds.

Cost	\$ 5,813,818	
Accumulated depreciation	<u>(2,263,369)</u>	3,550,449

Property tax revenues, not collected within 60 days of the fiscal year end,
end, are no financial resources and, therefore, not reported in the
governmental fund.

46,860

Accrued compensated absences are not due and payable in the
current period and, therefore, are not reported in the governmental
funds.

(870,771)

Total net position - governmental activities

\$ 4,567,088

The accompanying notes are an integral
part of the basic financial statements

**Community Mental Health Center
of Lancaster County**
Statement of Revenues, Expenditures
and Changes in Fund Balance - Governmental Fund
Year Ended June 30, 2013

Revenues

State revenues	\$ 4,083,067
Medicare/Medicaid/MRO reimbursements	2,687,557
Taxes	1,572,226
Charges for services	551,609
Federal grants	79,293
Other income	136,494
Other governmental revenues	95,295
Total revenues	<u>9,205,541</u>

Expenditures

Salaries	5,140,035
Employee benefits	1,558,390
Contractual services	771,366
Not-for-profit contracts	588,941
Lease expense	356,865
Client services	175,063
Contracted health services	158,965
Insurance	71,684
Miscellaneous fees and services	66,340
Communication	62,201
Energy supplies	32,452
Other compensation	31,867
Operating supplies	22,742
Printing and advertising	15,891
Repairs and maintenance	15,224
Utilities	12,790
Transportation and travel	10,036
Office supplies	9,349
Postage, courier and freight	9,203
Medical supplies	6,415
Total expenditures	<u>9,115,819</u>

Excess revenues over expenditures

89,722

Fund balance - beginning of year

1,750,828

Fund balance - end of year

\$ 1,840,550

The accompanying notes are an integral
part of the basic financial statements

**Community Mental Health Center
of Lancaster County**

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental
Funds to the Statement of Activities
Year Ended June 30, 2013

Net change in fund balance - governmental funds \$ 89,722

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

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 depreciation exceeded the amount of assets capitalized in the current period.

Depreciation expense	(124,992)	
Capital assets capitalized	<u>-</u>	(124,992)

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. (17,715)

Accrued compensated absences are not financial resources and, therefore, the current year's decrease is not reported in the governmental funds. 19,600

Change in net position - governmental activities \$ (33,385)

The accompanying notes are an integral
part of the basic financial statements

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

1. 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 a special revenue fund 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 activities of the CMHC and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2013, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Concentrations of Risk - The CMHC provides services and support to persons as described above. The majority of these services are rendered to eligible individuals where the CMHC receives reimbursement from Medicare, Medicaid, or the Nebraska Department of Health and Human Services Behavioral Health Region V.

Due to the large volume of services provided that are dependent on the CMHC maintaining the right to serve the individuals who are Medicaid or Medicare eligible, as well as providing service for Region V or as stated in other grants and contracts, the loss of the ability to serve these persons would have a significant effect on the operations of the CMHC. See also Note 10 for a change in CMHC operations that will occur in fiscal 2014.

Basis of Presentation - The government-wide financial statements (the Statement of Net Position 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 (1) charges to customers of applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The fund financial statements provide information about the government's funds. The CMHC's funds consist of only one fund, which is a special revenue fund of the County.

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

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, except to the extent amounts are not collected within 60 days of the end of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Charges for services to patients are recognized at the date the service is provided, net of estimated uncollectible amounts. All other revenue items are considered to be measurable and available only when cash is received by the government.

Cash, Cash Equivalents, and Investments - The County Treasurer has pooled the cash resources of various County funds for investment purposes. Investments consist primarily of deposits, time deposits, and U.S. government obligations. These investments are stated at cost, which approximates fair value. Interest earned on pooled funds is credited to the County General Fund.

Patient and Insurance Receivables, Due from Other Governmental Agencies - A substantial portion of the CMHC's revenue is from service recipients, third-party payers or governmental support. All patient and insurance receivables are shown net of an estimated allowance for uncollectible 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 patients and insurance receivables previously written off are recorded when received.

Due from other governmental agencies consists of amounts from third-party payers such as Medicaid, Medicare and the Nebraska state Department of Health and Human Services. Such receivables are recorded net of contractual adjustments made upon payment.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes - Based on the valuation as of January 1, property taxes are levied by the County Board of Commissioner 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 2013.

Also, the \$.50 limit may only be levied to provide services offered jointly with another government under an inter-local 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 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.

Taxes Receivable - Taxes receivable are all considered collectible by management. Based on prior experience with receipt of taxes, no allowance for uncollectible amounts has been provided related to taxes receivable. Tax amounts not received within 60 days after year-end are recorded as deferred revenue on the balance sheet.

Capital Assets and Depreciation - Capital assets purchased or acquired by CMHC, with a value over \$5,000, are recorded at historical cost. Contributed assets are recorded at fair 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:

	<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.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position - In the government-wide financial statements, net position represents the difference between total assets and total liabilities.

Net investment in capital assets - Consists of capital assets less accumulated depreciation and net of outstanding balances of any debt used to finance those assets, such as capital leases and bonds.

Restricted net position - Consists of net position with constraints placed on their use by (1) external groups such as creditors, grantor, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position - Consists of amounts that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance - As prescribed by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance classifications are based primarily on the extent to which the CMHC is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances are classified as follows:

Nonspendable - Assets legally or contractually required to be maintained or are not in spendable form, 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 - Assets with externally imposed constraints, such as those mandated by creditors, grantors, contributors, or laws and regulations.

Committed - 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 - Comprises amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

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

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. The County considers restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting - The County follows these procedures in establishing the budgetary data reflected in 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.

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.

2. CASH AND CASH EQUIVALENTS

At June 30, 2013, CMHC had \$886,625 of deposits included in the pooled cash and temporary investments held by the County Treasurer, with an additional \$9,291 of cash held at financial institutions and on hand.

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Public Funds Deposit Security Act, State Statute Sections 77-2386 to 77-23,106, requires banks either to give bonds or to pledge government securities (as identified in the statutes) to the County Treasurer in the amount of the County's deposits. As of June 30, 2013, the County's pooled deposits 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.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

3. DUE FROM OTHER GOVERNMENTAL AGENCIES

Due from other governmental agencies consisted of the following as of June 30, 2013:

Medicaid/Medicare/MRO Reimbursements	\$ 227,570
State of Nebraska	28,271
Federal	138,729
Total due from other governmental agencies	<u>\$ 394,570</u>

4. CAPITAL ASSETS

The changes in capital assets designated for the operation of CMHC for the year ended June 30, 2013 are as follows:

	Beginning Balance	Additions	Disposals	Transfers from County	Ending Balance
Land	\$ 187,500	\$ --	\$ --	\$ --	\$ 187,500
Land improvements	18,602	--	--	--	18,602
Buildings	4,870,817	--	--	--	4,870,817
Equipment	109,145	--	--	--	109,145
Vehicles	625,288	--	(18,424)	20,890	627,754
	<u>5,811,352</u>	<u>--</u>	<u>(18,424)</u>	<u>20,890</u>	<u>5,813,818</u>
Less accumulated depreciation	<u>(2,135,911)</u>	<u>(124,992)</u>	<u>18,424</u>	<u>(20,890)</u>	<u>(2,263,369)</u>
Capital assets, net	<u>\$ 3,675,441</u>	<u>\$ (124,992)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,550,449</u>

5. LONG-TERM LIABILITIES

CMHC's long-term liabilities as of June 30, 2013, consisted of the following:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 890,372</u>	<u>\$ 402,637</u>	<u>\$ (422,238)</u>	<u>\$ 870,771</u>	<u>\$ 610,000</u>

6. OPERATING LEASE COMMITMENTS

The CMHC maintains operating leases for various apartments used to house consumers, as well as office space used for operations. All leases are renewable in terms of one year or less. Lease expense was \$356,864 for the year ended June 30, 2013.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

7. EMPLOYEES' RETIREMENT PLANS

Post-Employment Health Plan

Plan Description. 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.

Funding Policy. 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 \$50,441 for the year ended June 30, 2013.

Additional information on the post-employment health plans can be found in the financial statements for Lancaster County, Nebraska.

Defined Contribution Retirement Pension Plan

Plan Description. The County has a defined contribution plan titled the Lancaster County, Nebraska Employees Retirement Plan. It is intended to qualify as a money purchase pension plan under Code Section 401(a). The pension program operates in compliance with all state and federal statutes, particularly Nebraska State Statute 30-3209. CMHC participates in the County's plan. The County's pension funds are invested according to a plan developed and reviewed annually by the County. 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 fund's assets, and establishes criteria to monitor and evaluate the performance of the investment managers. The plan authorizes investments in common and deferred 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.

Additional information on the pension plan can be found in the financial statements for Lancaster County, Nebraska

Funding Policy. 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.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

7. EMPLOYEES' RETIREMENT PLANS (CONTINUED)

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. 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.

Employer and plan member contributions are recognized in the period that the contributions are due. For CMHC, total employer contributions were \$328,911 and total employee contributions were \$219,274 for the year ended June 30, 2013.

8. 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 and professional liability coverages are 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 and professional 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 are funded on a cash basis with annual premiums charged to the County's individual funds, including the 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. Additional information on the County's internal service funds can be found in the County's audited financial statements.

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

9. PENDING GOVERNMENTAL ACCOUNTING STANDARDS

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, GASB 65 recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. GASB 65 is effective for County and CMHC for its fiscal year ending June 30, 2014.

10. COMMUNITY MENTAL HEALTH CENTER TRANSITION

In June 2011, The Lancaster County Board of Commissioners made a decision to transition the administration, management, and delivery of behavioral health services (except for the Crisis Center) currently provided by the Lancaster County Community Mental Health Center to the private and / or public service sector. The Community Mental Health Center Planning Committee was formed and submitted its final report to the Board in February of 2012 recommending the creation of a new recovery-based service model which integrates primary care and behavioral health services. The Planning Committee further recommended the County Board work with Region V Systems to prepare specifications for the new service model to be used in soliciting cooperative and creative proposals through an Invitation to Negotiate (ITN) process. Day rehabilitation services and the 24-hour Crisis Line have a transition date of October 1, 2013 while psychiatric residential rehabilitation services and core services will transition on December 31, 2013. The fiscal year 2013-14 budget for the CMHC remains consistent with the fiscal year 2012-13 budget due to transition costs and employee payouts due to retirements and vacation.

REQUIRED SUPPLEMENTARY INFORMATION

**Community Mental Health Center
of Lancaster County**

Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget to Actual (Budgetary Basis)
Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
State revenues	\$ 3,697,625	\$ 3,697,625	\$ 3,915,723	\$ 218,098
Medicare/ Medicaid/ MRO reimbursement	2,710,989	2,710,989	2,532,672	(178,317)
Taxes	1,610,746	1,610,746	1,815,017	204,271
Charges for services	392,700	392,700	359,560	(33,140)
Federal grants	193,915	193,915	84,014	(109,901)
Other income	107,025	107,025	125,290	18,265
Other intergovernmental revenues	118,466	118,466	95,295	(23,171)
Total revenues	<u>8,831,466</u>	<u>8,831,466</u>	<u>8,927,571</u>	<u>96,105</u>
Expenditures				
Salaries	5,238,347	5,238,347	5,140,035	98,312
Employee benefits	1,652,301	1,652,301	1,558,390	93,911
Contractual services	867,332	867,332	793,242	74,090
Not-for-profit contracts	578,499	578,499	588,941	(10,442)
Lease expense	356,865	356,865	356,865	-
Client services	211,220	211,220	177,154	34,066
Contracted health services	201,400	201,400	159,607	41,793
Insurance	72,143	72,243	71,684	559
Communication	68,320	68,320	63,941	4,379
Miscellaneous fees and services	39,350	51,850	67,136	(15,286)
Repairs and maintenance	36,867	36,867	31,867	5,000
Energy supplies	35,005	35,005	34,080	925
Other compensation	26,500	26,500	23,148	3,352
Operating supplies	19,700	19,700	17,270	2,430
Utilities	17,395	17,395	10,626	6,769
Printing and advertising	17,365	17,365	17,534	(169)
Medical supplies	15,050	15,050	7,089	7,961
Transportation and travel	14,850	14,850	12,790	2,060
Postage, courier and freight	11,150	11,150	9,399	1,751
Office supplies	10,050	10,050	9,664	386
Total expenditures	<u>9,489,709</u>	<u>9,502,309</u>	<u>9,150,462</u>	<u>351,847</u>
Excess (deficiency) of receipts over expenditures (budgetary basis)	<u>\$ (658,243)</u>	<u>\$ (670,843)</u>	(222,891)	<u>\$ 447,952</u>
Adjustments required under accounting principles generally accepted in the United States of America				
To adjust receipts for accruals (net)			277,971	
To adjust expenditures for accruals (net)			<u>34,642</u>	
Excess of revenues (modified accrual basis) over expenditures			<u>\$ 89,722</u>	

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, 2013

**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 receipts and disbursements basis of accounting. Encumbrances are also reflected as expenditures for budgetary purposes.

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 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

Lancaster County Board of Commissioners
Community Mental Health Center of Lancaster County

We have audited, in accordance with the 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, the financial statements of the governmental activities and the special revenue fund of the Community Mental Health Center (CMHC), a special revenue fund of Lancaster County, Nebraska, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the CMHC's basic financial statements, and have issued our report thereon dated September 26, 2013.

The financial statements present only the activities of the CMHC and do not purpose to, and do not, present fairly the financial position of County as of June 30, 2013, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CMHC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the CMHC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material

weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2013-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CMHC's financial statements are free from 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 no disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CMHC's Response to Findings

The CMHC's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The CMHC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 26, 2013
Wichita, KS

**COMMUNITY MENTAL HEALTH CENTER
OF LANCASTER COUNTY**

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2013-001 (Significant Deficiency): Segregation of Duties

Criteria/Condition: There is a lack of adequate segregation of duties related to the collection and recording of patient receipts. Client account representatives and the billing supervisor can accept receipts over the counter and post the payments and other adjustments to the customer's account in the billing system. The billing supervisor also opens the mail, posts payments received to the customer's accounts, and reconciles posted payments to the deposits.

Internal controls should ensure proper segregation of duties – i.e., assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. In small environments where there are a limited number of personnel, compensating controls can be incorporated to mitigate the risk of misappropriation of assets.

Cause: Due to its size, the CMHC has a limited number of personnel.

Effect: A lack of segregation of duties could lead to the potential for misappropriation of assets.

Recommendations: We recommend the following:

- 1) Consider having 2 individuals open the mail, and create a log of amounts received, which could later be reconciled to the amount posted to the system and the deposit by someone other than the billing supervisor.
- 2) A daily report is generated that shows payments, adjustments and other activity on customer accounts. This report is used in the daily balancing process, by the employee who prepares the daily reconciliation and deposit. Consider having someone in a supervisory position (who does not also have access to post payments or adjustments to the system) review this report to ensure the adjustments are proper.

Management's Response (Unaudited):

Lancaster County understands the segregation of duties concern and will review procedures and possible changes throughout the transition of the Mental Health Center.