

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

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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, 2014

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**COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY**

FINANCIAL STATEMENTS

Year Ended June 30, 2014

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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, 2014, 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, 2014, 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 purport to, and do not, present fairly the financial position of County as of June 30, 2014, 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, 2014 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, 2014  
Wichita, KS

**Community Mental Health Center  
of Lancaster County**

Statement of Net Position

June 30, 2014

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 600
Cash and investments held by County Treasurer	255,010
Accounts receivable	43,096
Due from other governmental agencies	95,360
Patient and insurance receivables, net of allowance for doubtful accounts of \$729,970	193,214
Capital assets:	
Land	187,500
Other capital assets, net of depreciation	3,244,630
Total assets	<u>4,019,410</u>
<b>Liabilities</b>	
Accounts payable	306,248
Accrued salaries	72,495
Non-current liabilities:	
Due within one year	170,797
Due in more than one year	104,683
Total liabilities	<u>654,223</u>
<b>Net Position</b>	
Net investment in capital assets	3,432,130
Unrestricted	(66,943)
Total net position	<u>\$ 3,365,187</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, 2014

<b>Functions/ Programs</b>	<b>Program Revenues</b>			<b>Governmental Activities</b>
<b>Governmental Activities</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
Mental health services:	\$ 7,137,003	\$ 4,412,868	\$ 20,909	\$ (2,703,226)
<b>General revenues</b>				
Taxes				
Property tax				3,289
County aid				1,405,769
Other intergovernmental revenues				22,477
Other income				69,790
Total general revenues				1,501,325
Change in net position				(1,201,901)
Net position - beginning of year				4,567,088
Net position - end of year				\$ 3,365,187

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, 2014

**Assets**

Cash and cash equivalents	\$ 600
Cash and investments held by County Treasurer	255,010
Accounts receivable	43,096
Due from other governmental agencies	95,360
Patient and insurance receivables, net of allowance for doubtful accounts of \$729,970	193,214
	<u>\$ 587,280</u>

**Liabilities and fund balance**

**Liabilities**

Accounts payable	\$ 306,248
Accrued salaries	72,495
Total liabilities	<u>378,743</u>

**Fund balance**

Assigned	208,537
	<u>\$ 587,280</u>

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, 2014

**Total fund balance - governmental funds** \$ 208,537

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	\$ 5,194,530	
Accumulated depreciation	<u>(1,762,400)</u>	3,432,130

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

(275,480)

**Total net position - governmental activities** \$ 3,365,187

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, 2014

**Revenues**

State revenues	\$ 2,730,511
Medicare / Medicaid / MRO reimbursements	1,609,481
County aid	1,405,769
Taxes	50,149
Charges for services	72,876
Federal grants	20,909
Other income	69,790
Other governmental revenues	22,477
Total revenues	<u>5,981,962</u>

**Expenditures**

Salaries	3,874,723
Employee benefits	1,531,758
Contractual services	791,747
Lease expense	318,196
Client services	106,786
Contracted health services	213,196
Insurance	76,552
Miscellaneous fees and services	489,258
Communication	50,003
Energy supplies	16,705
Other compensation	84,779
Operating supplies	15,082
Printing and advertising	12,868
Repairs and maintenance	6,374
Utilities	4,760
Transportation and travel	6,479
Office supplies	5,457
Postage, courier and freight	4,425
Medical supplies	4,827
Total expenditures	<u>7,613,975</u>

**Deficiency of revenues over expenditures** (1,632,013)

<b>Fund balance - beginning of year</b>	<u>1,840,550</u>
<b>Fund balance - end of year</b>	<u><u>\$ 208,537</u></u>

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, 2014

**Net change in fund balance - governmental funds** \$ (1,632,013)

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 of the depreciation expense recorded in the current period. (118,319)

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 collected in the fiscal year on the prior year tax levy. (46,860)

Accrued compensated absences are not financial resources and, therefore, the current year's decrease is not reported in the governmental funds. 595,291

**Change in net position - governmental activities** \$ (1,201,901)

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, 2014, 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.

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.

In December 2013, the County entered into an agreement with Lutheran Family Services (LFS) to transition various operations to LFS. The County agreed to pay LFS \$450,000 for the cost of transition services. Such expenses are recorded on the Statement of Revenues, Expenditures and Changes in Fund Balance with Miscellaneous fees and services, of which \$119,148 was included with accounts payable remaining to be paid as of June 30, 2014.

Additionally, in connection with the transition of services, the County paid \$513,452 in vacation and sick leave during fiscal 2014 for terminating or retiring employees.

On April 1, 2014, the County entered into an agreement with Centerpointe to operate the Community Transition Program. The County reimburses Centerpointe for services provided under the County's license.

As of June 30, 2014, the only Community Mental Health Center operations that remained the responsibility of the County consisted of the Crisis Center, management of a contract for psychiatric residential rehabilitation and a contract for a sex offender treatment program. The two contracts will end during fiscal 2015, which will leave only the operations of the Crisis Center.

**COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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 or 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 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.

**COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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

**COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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

**COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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, 2014, CMHC had \$255,010 of deposits included in the pooled cash and temporary investments held by the County Treasurer, with an additional \$600 of cash 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, 2014, 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, 2014:

Medicaid/Medicare/MRO Reimbursements	\$ 57,540
State of Nebraska	<u>37,820</u>
Total due from other governmental agencies	<u>\$ 95,360</u>

**4. CAPITAL ASSETS**

The changes in capital assets designated for the operation of CMHC for the year ended June 30, 2014 are as follows:

	Beginning Balance	Additions	Disposals	Transfers to County	Ending Balance
Land	\$ 187,500	\$ --	\$ --	\$ --	\$ 187,500
Land improvements	18,602	--	--	--	18,602
Buildings	4,870,817	--	--	--	4,870,817
Equipment	109,145	--	--	(16,514)	92,631
Vehicles	<u>627,754</u>	--	--	<u>(602,774)</u>	<u>24,980</u>
	<u>5,813,818</u>	--	--	<u>(619,288)</u>	<u>5,194,530</u>
Less accumulated depreciation	<u>(2,263,369)</u>	<u>(118,319)</u>	--	<u>619,288</u>	<u>(1,762,400)</u>
Capital assets, net	<u>\$ 3,550,449</u>	<u>\$ (118,319)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 3,432,130</u>

**5. LONG-TERM LIABILITIES**

CMHC's long-term liabilities as of June 30, 2014, consisted of the following:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 870,771</u>	<u>\$ 319,351</u>	<u>\$ (914,642)</u>	<u>\$ 275,480</u>	<u>\$ 170,797</u>

**COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

**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 operating leases terminated during 2014 with the privatization of mental health services as described more fully in Note 1. Lease expense was \$318,196 for the year ended June 30, 2014.

**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 \$22,650 for the year ended June 30, 2014.

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.

**COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

**7. EMPLOYEES' RETIREMENT PLANS (CONTINUED)**

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.

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 \$236,749 and total employee contributions were \$158,353 for the year ended June 30, 2014.

**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 County is self-insured up to \$200,000 per individual claim for group health insurance.

The self-insurance programs are administered by the County's Risk Manager. Commercial insurance covers the excess of the self-insured amount to the maximum of \$2,000,000 for employers' liability and \$5,000,000 for general liability. Settled claims have not exceeded commercial coverage for Lancaster County in any of the last three years.

The County utilizes the services of an actuary to prepare an analysis of the self-insured risks. The analysis is used to assist the County with its financial planning, budgeting, and management of the self-insurance programs.

**COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY**

NOTES TO FINANCIAL STATEMENTS

**8. RISK MANAGEMENT (CONTINUED)**

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.

Additional information on the County's internal service funds can be found in the County's audited financial statements. Due to the transition of the CMHC to non-profit privatized programs, all insurance coverage, except for building coverage and Crisis Center operations, was discontinued as of February 2014.

**9. PENDING GOVERNMENTAL ACCOUNTING STANDARDS**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued in June 2012. This statement establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they related to pensions that are provided through pension plans administered as trusts or equipment arrangements that meet certain criteria. Also this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses / expenditures. The provisions of this statement are effective for financial statements for the Center's fiscal year ending June 30, 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, was issued in November 2013. The objective of this statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Under Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances of deferred outflows and inflows of resources not be reported. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement should be applied simultaneously with the provisions of Statement 68.

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, 2014

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
State revenues	\$ 3,844,025	\$ 3,844,025	\$ 2,859,690	\$ (984,335)
Medicare/ Medicaid/ MRO reimbursements	2,690,235	2,690,235	1,647,125	(1,043,110)
County aid	1,820,769	1,820,769	1,405,769	(415,000)
Taxes	-	-	679,031	679,031
Charges for services	376,559	376,559	276,755	(99,804)
Federal grants	52,500	52,500	20,909	(31,591)
Other income	50,000	50,000	65,336	15,336
Other intergovernmental revenues	44,931	44,931	22,477	(22,454)
Total revenues	8,879,019	8,879,019	6,977,092	(1,901,927)
<b>Expenditures</b>				
Salaries	5,352,533	5,352,533	3,874,724	1,477,809
Employee benefits	1,653,619	1,653,619	1,531,757	121,862
Contractual services	805,914	805,914	778,544	27,370
Lease expense	356,867	356,867	318,196	38,671
Client services	195,900	195,900	106,005	89,895
Contracted health services	171,700	171,700	179,242	(7,542)
Insurance	71,145	71,145	76,553	(5,408)
Communication	65,336	65,336	50,003	15,333
Miscellaneous fees and services	556,315	556,315	369,943	186,372
Repairs and maintenance	16,850	16,850	6,375	10,475
Energy supplies	34,400	34,400	18,182	16,218
Other compensation	35,055	35,055	42,158	(7,103)
Operating supplies	25,350	25,350	15,082	10,268
Utilities	14,800	14,800	4,760	10,040
Printing and advertising	19,721	19,721	12,868	6,853
Medical supplies	7,200	7,200	4,826	2,374
Transportation and travel	11,020	11,020	6,479	4,541
Postage, courier and freight	14,000	14,000	3,964	10,036
Office supplies	14,300	14,300	5,457	8,843
Total expenditures	9,422,025	9,422,025	7,405,118	2,016,907
<b>Excess (deficiency) of receipts over expenditures (budgetary basis)</b>	<b>\$ (543,006)</b>	<b>\$ (543,006)</b>	<b>\$ (428,026)</b>	<b>\$ 114,980</b>
<b>Adjustments required under accounting principles generally accepted in the United States of America</b>				
To adjust receipts for accruals (net)			(995,132)	
To adjust expenditures for accruals (net)			(208,855)	
<b>Excess of revenues (modified accrual basis) over expenditures</b>			<b>\$ (1,632,013)</b>	

COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2014

**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, 2014, 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, 2014.

The financial statements present only the activities of the CMHC and do not purport to, and do not, present fairly the financial position of County as of June 30, 2014, 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 2014-001, 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*.

### **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 results 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, 2014  
Wichita, KS

**COMMUNITY MENTAL HEALTH CENTER  
OF LANCASTER COUNTY**

SCHEDULE OF FINDINGS AND RESPONSES

**Finding 2014-001 (Significant Deficiency): Segregation of Duties**

**Criteria/Condition:** There is a lack of adequate segregation of duties related to the patient billing process including posting of adjustments to patients' accounts and the collection and recording of patient receipts. Client account representatives and two account clerks can accept receipts over the counter and post the payments and other adjustments to the customer's account in the billing system. One account clerk opens the mail, logs the amount of collections received and prepares the deposit slip. The other account clerk posts payments received to customer's accounts and reconciles the posted payments to the deposits. However, both account clerks have access to the entire billing process.

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 have someone not involved in the billing process use the log of amounts received to reconcile to the amount posted to the system.
- 2) Consider running a daily report that shows payments, adjustments and other activity on customer accounts. 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.
- 3) Consider limiting access to patient accounts in the system for those individuals who collect patient receipts.

**Management's Response (Unaudited):** Lancaster County understands the segregation of duties concern and will review procedures along with the above mentioned recommendations. Staff is limited but we will look at possible solutions.