

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

Description of the Office of the State Auditor

The mission of the State Auditor's Office is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

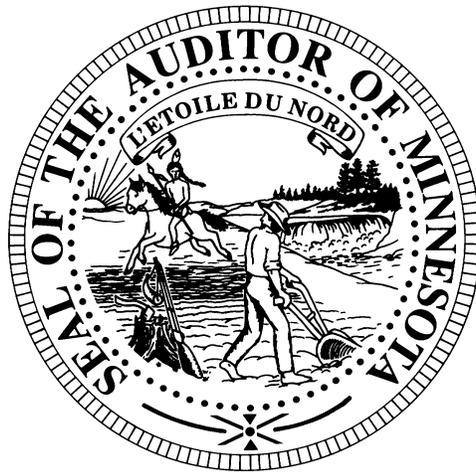
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

Years Ended December 31, 2004 and 2005



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

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**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

ORGANIZATION
2005

Governing Board	Representing	Term Expires
Chair Chris Sorenson ¹	Lincoln, Lyon, and Murray Counties	January 2006
Vice Chair Peggy Heglund ²	Yellow Medicine County	January 2006
Treasurer Craig Myers	Cottonwood County	January 2006
Members		
Lee McAllister	Nobles County	January 2006
Carmen Clementson	Kandiyohi County	January 2006
Wendy Wulkan	Renville County	January 2006
Noel "Chuck" Koenigs	Swift County	January 2006
Julia Lysholm	Northern Region Consumer Representative	January 2006
Marya Manfred	Southern Region Consumer Representative	January 2006
Sandra Butturff	South State Operated Services Network	January 2006
Scott Johnson	Southwest Mental Health Center	January 2006
Raymond Reese	Jackson County	January 2006
Project Coordinator Linda Sjoberg (Non-Voting Member)	South State Operated Services Network	Indefinite
Liaison Sharyl Helgeson (Non-Voting Member)	Minnesota Department of Human Services	Indefinite

¹2004 and 2005 Chair

²2006 Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Executive Board
Southwestern Minnesota Adult Mental Health Consortium

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Southwestern Minnesota Adult Mental Health Consortium as of and for the years ended December 31, 2004 and 2005, which collectively comprise the Consortium's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Consortium's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the General Fund of the Southwestern Minnesota Adult Mental Health Consortium as of December 31, 2004 and 2005, and the respective changes in financial position thereof and the budgetary comparison statements for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as a supporting schedule in the table of contents is presented for purposes of additional analysis and is not a required part of the Southwestern Minnesota Adult Mental Health Consortium's basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 1, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004 AND 2005
(Unaudited)**

As management of the Southwestern Minnesota Adult Mental Health Consortium, we offer the readers of the Consortium's financial statements this narrative overview and analysis of its financial activities for the fiscal years ended December 31, 2004 and 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL REPORTING ENTITY

The Southwestern Minnesota Adult Mental Health Consortium was established pursuant to Minn. Stat. ch. 245. Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Lincoln, Lyon, and Murray Human Services Board, entered into a joint powers agreement (Minn. Stat. § 471.59) in November 1997.

The Consortium is governed by a 12-member Executive Board to be selected in the following manner: eight representatives from member counties (four from the Northern region and four from the Southern region), two consumer representatives, one representative from State Operated Services, and one representative selected by the Mental Health Centers serving the 18 counties.

The governing board, in order to be statutorily compliant, will operate under the ultimate authority of the Boards of County Commissioners, represented by the Executive Commissioner Board. The Executive Commissioner Board has the authority and will direct and review the actions and duties of the governing board. The Executive Commissioner Board is composed of a Commissioner representative from each County Board within the 18-county Consortium jurisdiction.

The financial activities of the Southwestern Minnesota Adult Mental Health Consortium are accounted for by Cottonwood County as fiscal agent.

The primary activities of the Consortium are to take actions and enter into such agreements as may be necessary to plan and develop within the Consortium's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. This responsibility is jointly shared by the counties and is in accordance with Minn. Stat. § 245.465 et sequitur.

FINANCIAL HIGHLIGHTS

In 2004, the assets of the Southwestern Minnesota Adult Mental Health Consortium exceeded its liabilities by \$361,375, of which \$37,365 is invested in capital assets (Exhibit 1), leaving unrestricted net assets of \$324,010. For 2005, the assets of the Southwestern Minnesota Adult Mental Health Consortium exceeded its liabilities by \$650,586, of which \$73,283 is invested in capital assets (Exhibit 4), leaving unrestricted net assets of \$577,303. The Southwestern Minnesota Adult Mental Health Consortium's total net assets increased from \$361,375 in 2004 to \$650,586 in 2005 for an increase of \$289,211.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The Southwestern Minnesota Adult Mental Health Consortium basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the operations and the basic services provided. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each statement presents the governmental activities' Statement of Net Assets and the Statement of Activities, which provide information about the activities of the Southwestern Minnesota Adult Mental Health Consortium as a whole and present a longer-term view of the finances. These columns include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Over time, increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating.

Governmental Fund

Revenues for the Southwestern Minnesota Adult Mental Health Consortium's fund increased from 2004 to 2005 by \$1,078,363, while total expenditures increased by \$910,875 during the same period.

As shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance on Exhibit 2, the amount that was received through intergovernmental revenue in 2004 was 99.7 percent of the total revenue received, or \$949,052. For 2005 (Statement of Revenues, Expenditures, and Changes in Fund Balance on Exhibit 5), the amount that was received through intergovernmental revenue was 99.9 percent of the total revenue received, or \$2,028,928.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information is provided as supplementary information regarding the Southwestern Minnesota Adult Mental Health Consortium's intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of financial position. The Southwestern Minnesota Adult Mental Health Consortium's assets exceeded liabilities by \$650,586 at the close of 2005. The largest portion of the Consortium's net assets reflects current assets.

	Net Assets		
	2005	2004	2003
Assets			
Current and other assets	\$ 1,074,849	\$ 331,216	\$ 104,153
Capital assets	<u>73,283</u>	<u>37,365</u>	<u>52,357</u>
Total Assets	<u>\$ 1,148,132</u>	<u>\$ 368,581</u>	<u>\$ 156,510</u>
Liabilities			
Other liabilities	<u>\$ 497,546</u>	<u>\$ 7,206</u>	<u>\$ 5,230</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 73,283	\$ 37,365	\$ 52,357
Unrestricted	<u>577,303</u>	<u>324,010</u>	<u>98,923</u>
Total Net Assets	<u>\$ 650,586</u>	<u>\$ 361,375</u>	<u>\$ 151,280</u>

Governmental Activities

The Southwestern Minnesota Adult Mental Health Consortium's activities increased the net assets during 2004 by \$210,095, representing a 139 percent increase. In 2005, the net assets increased by \$289,211, representing an 80 percent increase. Key elements in this increase in net assets are as follows:

	Changes in Net Assets		
	2005	2004	2003
Revenues			
Intergovernmental	\$ 1,959,287	\$ 1,018,693	\$ 819,398
Miscellaneous	1,000	2,513	375
Total Revenues	\$ 1,960,287	\$ 1,021,206	\$ 819,773
Expenditures			
Human Services	1,671,076	811,111	839,686
Increase (Decrease) in Net Assets	\$ 289,211	\$ 210,095	\$ (19,913)
Net Assets - January 1	361,375	151,280	171,193
Net Assets - December 31	\$ 650,586	\$ 361,375	\$ 151,280

General Fund Budgetary Highlights

The general operating budget for the Southwestern Minnesota Adult Mental Health Consortium's budget is adopted annually based on a base grant amount. Budget revisions are done after a final grant award is received from the Department of Human Services. The governing board is presented monthly financial statements. In 2005, the Southwestern Minnesota Adult Mental Health Consortium became the recipient of additional grant funds that were budgeted for two new Medicaid-reimbursable services. Both of these services require match funds and obligation of payment of services for persons not covered by Medicaid. Revenues and expenditures were easily predictable during the initial phases of operation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Southwestern Minnesota Adult Mental Health Consortium's depreciable capital assets (net of accumulated depreciation) at December 31, 2004 and 2005, totaled \$37,365 and \$73,283, respectively. This investment in capital assets includes office furniture and equipment.

Long-Term Debt

At the end of the fiscal years 2004 and 2005, the Southwestern Minnesota Adult Mental Health Consortium had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Southwestern Minnesota Adult Mental Health Consortium adopted the 2006 budget based on a preliminary grant award. This will be the first full year of operation for the Medicaid services, intensive residential treatment, and assertive community treatment. Since these are cost-based services, monitoring of utilization, expenditures, and revenues will be required.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Southwestern Minnesota Adult Mental Health Consortium's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Linda Sjoberg, Project Coordinator, 2200 - 23rd Street N.E., Suite 2050, Willmar, Minnesota 56201.

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BASIC FINANCIAL STATEMENTS

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**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2004**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 82,141	\$ -	\$ 82,141
Due from other governments	249,075	-	249,075
Capital assets			
Depreciable - net	-	37,365	37,365
Total Assets	\$ 331,216	\$ 37,365	\$ 368,581
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 6,332	\$ -	\$ 6,332
Due to other governments	874	-	874
Deferred revenue - unavailable	69,641	(69,641)	-
Total Liabilities	\$ 76,847	\$ (69,641)	\$ 7,206
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	254,369	\$ (254,369)	
Total Liabilities and Fund Balance	\$ 331,216		
Net Assets			
Invested in capital assets		\$ 37,365	\$ 37,365
Unrestricted		324,010	324,010
Total Net Assets		\$ 361,375	\$ 361,375
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 254,369
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.			37,365
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			69,641
Net Assets - Governmental Activities			\$ 361,375

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 949,052	\$ 69,641	\$ 1,018,693
Miscellaneous	2,513	-	2,513
Total Revenues	\$ 951,565	\$ 69,641	\$ 1,021,206
Expenditures/Expenses			
Current			
Human services			
Mental health	796,119	14,992	811,111
Net Change in Fund Balance/Net Assets	\$ 155,446	\$ 54,649	\$ 210,095
Fund Balance/Net Assets - January 1	98,923	52,357	151,280
Fund Balance/Net Assets - December 31	\$ 254,369	\$ 107,006	\$ 361,375
 Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities of Governmental Activities			
Net Change in Fund Balance			\$ 155,446
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.			
Capital outlay expenditures		\$ 4,136	
Current year depreciation expense		(19,128)	(14,992)
 In the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.			
Deferred revenue - December 31		\$ 69,641	
Deferred revenue - January 1		-	69,641
Change in Net Assets of Governmental Activities			\$ 210,095

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

EXHIBIT 3

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 752,104	\$ 927,011	\$ 949,052	\$ 22,041
Miscellaneous	-	-	2,513	2,513
Total Revenues	\$ 752,104	\$ 927,011	\$ 951,565	\$ 24,554
Expenditures				
Current				
Human services				
Mental health	855,321	1,030,228	796,119	234,109
Net Change in Fund Balance	\$ (103,217)	\$ (103,217)	\$ 155,446	\$ 258,663
Fund Balance - January 1	98,923	98,923	98,923	-
Fund Balance - December 31	\$ (4,294)	\$ (4,294)	\$ 254,369	\$ 258,663

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

EXHIBIT 4

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2005**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 689,966	\$ -	\$ 689,966
Accounts receivable	9,710	-	9,710
Loans receivable	215,190	-	215,190
Due from other governments	159,983	-	159,983
Capital assets			
Depreciable - net	-	73,283	73,283
Total Assets	\$ 1,074,849	\$ 73,283	\$ 1,148,132
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 103,968	\$ -	\$ 103,968
Due to other governments	307,313	-	307,313
Deferred revenue - unearned	86,265	-	86,265
Total Liabilities	\$ 497,546	\$ -	\$ 497,546
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Reserved for loans receivable	\$ 215,190		
Unreserved, undesignated	362,113		
Total Fund Balance	\$ 577,303	\$ (577,303)	
Total Liabilities and Fund Balance	\$ 1,074,849		
Net Assets			
Invested in capital assets		\$ 73,283	\$ 73,283
Unrestricted		577,303	577,303
Total Net Assets		\$ 650,586	\$ 650,586
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 577,303
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.			73,283
Net Assets - Governmental Activities			\$ 650,586

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

EXHIBIT 5

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 2,028,928	\$ (69,641)	\$ 1,959,287
Miscellaneous	1,000	-	1,000
Total Revenues	\$ 2,029,928	\$ (69,641)	\$ 1,960,287
Expenditures/Expenses			
Current			
Human services			
Mental health	1,706,994	(35,918)	1,671,076
Net Change in Fund Balance/Net Assets	\$ 322,934	\$ (33,723)	\$ 289,211
Fund Balance/Net Assets - January 1	254,369	107,006	361,375
Fund Balance/Net Assets - December 31	\$ 577,303	\$ 73,283	\$ 650,586

**Reconciliation of the Statement of General Fund Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities of
Governmental Activities**

Net Change in Fund Balance **\$ 322,934**

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.

Capital outlay expenditures	\$ 55,857	
Current year depreciation expense	(19,939)	35,918

In the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ -	
Deferred revenue - January 1	(69,641)	(69,641)

Change in Net Assets of Governmental Activities **\$ 289,211**

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

EXHIBIT 6

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 823,618	\$ 997,164	\$ 2,028,928	\$ 1,031,764
Miscellaneous	-	-	1,000	1,000
Total Revenues	\$ 823,618	\$ 997,164	\$ 2,029,928	\$ 1,032,764
Expenditures				
Current				
Human services				
Mental health	1,051,591	1,682,588	1,706,994	(24,406)
Net Change in Fund Balance	\$ (227,973)	\$ (685,424)	\$ 322,934	\$ 1,008,358
Fund Balance - January 1	254,369	254,369	254,369	-
Fund Balance - December 31	\$ 26,396	\$ (431,055)	\$ 577,303	\$ 1,008,358

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

1. Summary of Significant Accounting Policies

The Southwestern Minnesota Adult Mental Health Consortium's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the years ended December 31, 2004 and 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Southwestern Minnesota Adult Mental Health Consortium are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- a Management's Discussion and Analysis section providing an analysis of the Southwestern Minnesota Adult Mental Health Consortium's overall financial position and results of operations; and
- financial statements prepared using full accrual accounting for all of the Southwestern Minnesota Adult Mental Health Consortium's activities.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Financial Reporting Entity

The Southwestern Minnesota Adult Mental Health Consortium was established in 1997 by 18 counties pursuant to the Adult Mental Health Act under Minn. Stat. ch. 245. The Consortium was established to provide more efficient adult mental health services for the mutual benefit of the Consortium's members and clients.

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Cottonwood County, as fiscal agent, reports the transactions of the Consortium in an agency fund on its financial statements.

B. Basic Financial Statements

Basic financial statements include information on the Consortium's activities as a whole and information on the individual fund of the Consortium. These separate presentations are reported in different columns on Exhibits 1, 2, 4, and 5. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Consortium as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Consortium's net assets are reported in two parts: invested in capital assets, net of related debt, and unrestricted net assets. The statement of activities demonstrates the degree to which the expenses of the Consortium are offset by revenues.

The balance sheet and statement of revenues, expenditures, and changes in fund balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

The governmental activities 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Southwestern Minnesota Adult Mental Health Consortium considers all revenues as available if

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the Southwestern Minnesota Adult Mental Health Consortium's policy to use restricted resources first and then unrestricted resources as needed.

D. Budgetary Data

General Budget Policies

The Consortium's Executive Board adopts an estimated revenue and expenditure budget for the General Fund. The budget may be amended or modified at any time by the Board. Comparisons of estimated revenue and expenditures to actual are presented in the financial statements for the General Fund.

Budget Basis of Accounting

The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles.

E. Assets, Liabilities, and Net Assets or Equity

1. Assets

Cash is on deposit with Cottonwood County.

Capital assets consist of furniture and equipment with an initial cost of \$500 or more and an estimated useful life in excess of one year. All capital assets are valued at their historical cost. Depreciation on the assets is calculated on a straight-line basis over 3 to 15 years.

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

1. Assets (Continued)

Accounts Receivable

Accounts receivable are not reduced by an allowance for uncollectible accounts.

2. Liabilities

Deferred Revenue

Governmental funds and governmental activities defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

3. Fund Equity and Net Assets

The fund financial statements report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Invested in capital assets represents the accumulated value of the capital assets of the Consortium.

Unrestricted net assets represent the accumulated earnings of the Consortium.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Revenues and Expenditures

1. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs.

Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the Consortium perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary exchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Exchange Transactions

Miscellaneous revenue is generally recognized as revenue when earned.

2. Expenditures

Expenditure recognition for the General Fund includes only amounts represented by current liabilities.

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Expenditures in Excess of Budget

The General Fund had expenditures in excess of final budget for the year ended December 31, 2005.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	<u>\$ 1,706,994</u>	<u>\$ 1,682,588</u>	<u>\$ 24,406</u>

3. Detailed Notes

Assets

Cash Deposits

Cash transactions are administered by the Cottonwood County Auditor/Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board. Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of investments available to the County. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral, a requirement with which Cottonwood County was in compliance at December 31, 2004 and 2005.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Consortium's deposits may not be returned to it. The Consortium does not have a deposit policy for custodial credit risk. As of December 31, 2004 and 2005, the Consortium's deposits were not exposed to custodial credit risk.

Receivables

The Consortium did not have any receivables scheduled to be collected beyond one year as of December 31, 2004 and 2005.

Due from other governments consists of \$249,075 at December 31, 2004, and \$159,983 at December 31, 2005, both due from the state.

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

3. Detailed Notes

Assets

Receivables (Continued)

At December 31, 2005, the Consortium had loans receivable of \$215,190. These loans consisted of advances to two mental health service providers. The loans were repaid during 2006.

Capital Assets

Capital asset activity for the years ended December 31, 2004 and 2005, was as follows:

2004

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Office furniture and equipment	\$ 122,676	\$ 4,136	\$ 3,073	\$ 123,739
Less: accumulated depreciation	<u>70,319</u>	<u>19,128</u>	<u>3,073</u>	<u>86,374</u>
Total Capital Assets, Depreciated, Net	<u>\$ 52,357</u>	<u>\$ (14,992)</u>	<u>\$ -</u>	<u>\$ 37,365</u>

2005

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Office furniture and equipment	\$ 123,739	\$ 55,857	\$ 7,908	\$ 171,688
Less: accumulated depreciation	<u>86,374</u>	<u>19,939</u>	<u>7,908</u>	<u>98,405</u>
Total Capital Assets, Depreciated, Net	<u>\$ 37,365</u>	<u>\$ 35,918</u>	<u>\$ -</u>	<u>\$ 73,283</u>

Depreciation expense was charged to the Human Services function for the years ended December 31, 2004 and 2005.

**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

4. Risk Management

The Southwestern Minnesota Adult Mental Health Consortium is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. For these risks, the Consortium has entered into a joint powers agreement with certain Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover its property and casualty liabilities.

The Property and Casualty Division of MCIT is self-sustaining, and the Consortium pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Consortium in a method and amount to be determined by MCIT.

The Southwestern Minnesota Adult Mental Health Consortium Board did not reduce insurance coverage from the past year and has not had settlements in excess of insurance coverage in any of the past three years.

SUPPORTING SCHEDULE

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**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

Schedule 1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005**

	<u>2004</u>	<u>2005</u>
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 116,601	\$ 711,332
Payments		
Local grants	55,062	39,581
Grants		
State		
Minnesota Department of Human Services	735,398	1,278,015
Federal		
Department of Health and Human Services	41,991	-
Total Intergovernmental Revenue	<u>\$ 949,052</u>	<u>\$ 2,028,928</u>

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**SOUTHWESTERN MINNESOTA
ADULT MENTAL HEALTH CONSORTIUM
WINDOM, MINNESOTA**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

05-1 Contracting - Advertising for Bids

The Southwestern Minnesota Adult Mental Health Consortium failed to advertise for sealed bids on a contract for new computers. The Consortium solicited quotes from local vendors for 36 computers and accepted the low quote of \$68,399.

Contracts that exceed \$50,000 require sealed bids, solicited by public notice if they are not for an emergency situation, per Minn. Stat. § 471.345, subd. 3. The awarding of the contract should then be recorded in the Consortium's governing board minutes.

We recommend the Consortium comply with all statutory requirements relating to contracts in the future.

Client's Response:

We will comply with Minn. Stat. § 471.345, subd. 3.

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REBECCA OTTO
STATE AUDITOR

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REPORT ON MINNESOTA LEGAL COMPLIANCE

Executive Board
Southwestern Minnesota Adult Mental Health Consortium

We have audited the financial statements of the governmental activities and the General Fund of the Southwestern Minnesota Adult Mental Health Consortium as of and for the years ended December 31, 2004 and 2005, and have issued our report thereon dated February 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except for public indebtedness, as the Southwestern Minnesota Adult Mental Health Consortium has none; and deposits and investments, because Consortium accounts are held by the fiscal agent.

The results of our tests indicate that, for the items tested, the Southwestern Minnesota Adult Mental Health Consortium complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 05-1.

This report is intended solely for the information and use of the Executive Board and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 1, 2007