

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, 2008 AND 2009

Description of the Office of the State Auditor

The mission of the Office of the State Auditor 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**

For the Years Ended December 31, 2008 and 2009



**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
2009

<u>Governing Board</u>	<u>Representing</u>	<u>Term Expires</u>
Chair Carmen Clementson	Kandiyohi County	January 2010
Vice Chair Leah Lundgren	McLeod County	January 2010
Secretary/Treasurer Craig Myers	Cottonwood County	January 2010
Members		
Christopher Sorensen	Lincoln, Lyon, and Murray Counties	January 2010
Mary Fischer	Nobles and Pipestone Counties	January 2010
Ron Louks	Northern Region Consumer Representative	January 2010
Patrick Bruflat	Redwood County	January 2010
Marya Manfred	Southern Region Consumer Representative	January 2010
Scott Johnson	Southwestern Mental Health Center	January 2010
Lorri Pederson	Swift County	January 2010
Peggy Heglund	Yellow Medicine County	January 2010
Project Coordinator Linda Sjoberg (Non-Voting Member)	State-Operated Services	Indefinite
Liaison Paul Heyl (Non-Voting Member)	Minnesota Department of Human Services	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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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, 2008 and 2009, 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, 2008 and 2009, 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

May 14, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008 AND 2009
(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, 2008 and 2009. 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 an 11-member governing board to be selected in the following manner: 8 representatives from member counties (4 from the Northern Region and 4 from the Southern Region), 2 consumer representatives, and 1 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 2008, the assets of the Southwestern Minnesota Adult Mental Health Consortium exceeded its liabilities by \$2,032,436 of which \$36,997 is invested in capital assets (Exhibit 1), leaving unrestricted net assets of \$1,995,439. For 2009, the assets of the Southwestern Minnesota Adult Mental Health Consortium exceeded its liabilities by \$1,976,671 of which \$25,735 is invested in capital assets (Exhibit 4), leaving unrestricted net assets of \$1,950,936. The Southwestern Minnesota Adult Mental Health Consortium's total net assets decreased from \$2,032,436 in 2008 to \$1,976,671 in 2009, for a decrease of \$55,765.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. The Southwestern Minnesota Adult Mental Health Consortium's 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.

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 \$1,976,671 at the close of 2009. The largest portion of the Consortium's net assets reflects current assets.

	Net Assets		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Current and other assets	\$ 2,278,573	\$ 2,415,116	\$ 1,646,935
Capital assets	<u>25,735</u>	<u>36,997</u>	<u>36,656</u>
Total Assets	<u>\$ 2,304,308</u>	<u>\$ 2,452,113</u>	<u>\$ 1,683,591</u>
Liabilities			
Other liabilities	<u>\$ 327,637</u>	<u>\$ 419,677</u>	<u>\$ 323,335</u>
Net Assets			
Invested in capital assets	\$ 25,735	\$ 36,997	\$ 36,656
Unrestricted	<u>1,950,936</u>	<u>1,995,439</u>	<u>1,323,600</u>
Total Net Assets	<u>\$ 1,976,671</u>	<u>\$ 2,032,436</u>	<u>\$ 1,360,256</u>

Governmental Activities

The Southwestern Minnesota Adult Mental Health Consortium's activities increased the net assets during 2008 by \$672,180, representing a 49 percent increase. In 2009, the net assets decreased by \$55,765, representing a 3 percent decrease. Key elements in these changes in net assets are as follows:

	Changes in Net Assets		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues			
Intergovernmental	\$ 4,246,038	\$ 4,710,364	\$ 3,215,412
Investment revenue	22,005	1,519	-
Miscellaneous	<u>3,643</u>	<u>3,490</u>	<u>144,282</u>
Total Revenues	\$ 4,271,686	\$ 4,715,373	\$ 3,359,694
Expenditures			
Human services	<u>4,327,451</u>	<u>4,043,193</u>	<u>2,947,615</u>
Increase (Decrease) in Net Assets	\$ (55,765)	\$ 672,180	\$ 412,079
Net Assets - January 1	<u>2,032,436</u>	<u>1,360,256</u>	<u>948,177</u>
Net Assets - December 31	<u>\$ 1,976,671</u>	<u>\$ 2,032,436</u>	<u>\$ 1,360,256</u>

FINANCIAL ANALYSIS OF THE GENERAL FUND

Revenues for the Southwestern Minnesota Adult Mental Health Consortium's fund increased from 2008 to 2009 by \$276,943, while total expenditures increased by \$177,019 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 2008 was 96.5 percent of the total revenue received, or \$4,013,002. For 2009 (Statement of Revenues, Expenditures, and Changes in Fund Balance on Exhibit 5), the amount that was received through intergovernmental revenue was 99.4 percent of the total revenue received, or \$4,411,003.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general operating budget for the Southwestern Minnesota Adult Mental Health Consortium is adopted annually based on a base grant amount. Budget revisions are done after a final grant award is received from the Minnesota Department of Human Services. The governing board is presented monthly financial statements. The first full year the Southwestern Minnesota Adult Mental Health Consortium was obligated to payment of services for persons not covered by Medicaid was 2006. The cost of the non-Medicaid covered services exceeded projections in 2006; subsequently, measures were implemented in 2007 that greatly reduced the non-Medical Assistance (MA) obligation. The addition of the rehabilitative services to the benefit set for Medicaid and health plans further reduced the non-MA obligation in 2008 and 2009. This had a significant impact on the 2008 budget as non-MA expenditures were \$333,391 under budget. This underspending resulted in a decrease of revenue, as this amount would have been paid to the Consortium as part of the Consortium grant. In March 2009, \$697,362 was received which was for 2008 grant expenditures. In reviewing the 2009 variance, the Buffalo Ridge Assertive Community Treatment budget revenue was under budget by \$232,455. Factors include a decrease in client contacts that resulted in loss of revenues as well as payback for 2008 overpayment that was deducted from 2009 revenues.

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, 2008 and 2009, totaled \$36,997 and \$25,735, respectively. This investment in capital assets includes office furniture and equipment.

Long-Term Debt

At the end of the fiscal years 2008 and 2009, 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 2010 budget based on a preliminary grant award. The 2010 budget does reflect increased budgeting for coverage of non-Medicaid services due to the potential elimination of the General Assistance Medical Assistance Program. In 2009, the Southwestern Minnesota Adult Mental Health Consortium saw the need for housing subsidies triple. Funding was increased and will be sustained in 2010. These two factors are the primary reason the 2010 budget was developed, encumbering both grant funds and earned revenues.

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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2008 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, 2008**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Current assets			
Cash	\$ 1,079,935	\$ -	\$ 1,079,935
Accounts receivable	195,889	-	195,889
Loans receivable	300,000	(300,000)	-
Due from other governments	839,292	-	839,292
Noncurrent assets			
Long-term loans receivable	-	300,000	300,000
Capital assets			
Depreciable - net	-	36,997	36,997
Total Assets	\$ 2,415,116	\$ 36,997	\$ 2,452,113
 <u>Liabilities and Fund Balance/Net Assets</u>			
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 66,586	\$ -	\$ 66,586
Due to other governments	353,091	-	353,091
Deferred revenue - unavailable	745,180	(745,180)	-
Total Liabilities	\$ 1,164,857	\$ (745,180)	\$ 419,677
 <u>Fund Balance/Net Assets</u>			
Fund Balance			
Reserved for loans receivable	\$ 300,000		
Unreserved, undesignated	950,259		
Total Fund Balance	\$ 1,250,259	\$ (1,250,259)	
Net Assets			
Invested in capital assets		\$ 36,997	\$ 36,997
Unrestricted		1,995,439	1,995,439
Total Net Assets		\$ 2,032,436	\$ 2,032,436
Total Liabilities and Fund Balance/Net Assets	\$ 2,415,116	\$ 36,997	\$ 2,452,113

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

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

***EXHIBIT 1
(Continued)***

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2008**

Reconciliation of the General Fund Balance to Net Assets

Fund Balance - General Fund	\$ 1,250,259
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	36,997
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	<u>745,180</u>
Net Assets - Governmental Activities	<u><u>\$ 2,032,436</u></u>

**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, 2008**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 4,013,002	\$ 697,362	\$ 4,710,364
Investment earnings	1,519	-	1,519
Miscellaneous	145,187	(141,697)	3,490
	\$ 4,159,708	\$ 555,665	\$ 4,715,373
Expenditures/Expenses			
Current			
Human services			
Mental health	4,091,352	(48,159)	4,043,193
	\$ 68,356	\$ 603,824	\$ 672,180
Net Change in Fund Balance/Net Assets			
	\$ 1,181,903	178,353	1,360,256
Fund Balance/Net Assets - January 1			
	\$ 1,250,259	\$ 782,177	\$ 2,032,436

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		\$ 68,356
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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	\$ 22,097	
Current year depreciation expense	(21,756)	341

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 or decrease in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 745,180	
Deferred revenue - January 1	(141,697)	603,483

Change in Net Assets of Governmental Activities		\$ 672,180
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**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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 4,910,391	\$ 5,185,944	\$ 4,013,002	\$ (1,172,942)
Interest on investments	-	-	1,519	1,519
Miscellaneous	-	-	145,187	145,187
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 4,910,391	\$ 5,185,944	\$ 4,159,708	\$ (1,026,236)
Expenditures				
Current				
Human services				
Mental health	4,910,391	5,185,944	4,091,352	1,094,592
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ -	\$ -	\$ 68,356	\$ 68,356
Fund Balance - January 1	<u>1,181,903</u>	<u>1,181,903</u>	<u>1,181,903</u>	<u>-</u>
Fund Balance - December 31	<u><u>1,181,903</u></u>	<u><u>1,181,903</u></u>	<u><u>1,250,259</u></u>	<u><u>68,356</u></u>

2008 BASIC FINANCIAL STATEMENTS

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**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, 2009**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Current assets			
Cash	\$ 1,183,068	\$ -	\$ 1,183,068
Accounts receivable	152,340	-	152,340
Loans receivable	300,000	(300,000)	-
Due from other governments	643,165	-	643,165
Noncurrent assets			
Long-term loans receivable	-	300,000	300,000
Capital assets			
Depreciable - net	-	25,735	25,735
Total Assets	\$ 2,278,573	\$ 25,735	\$ 2,304,308
 <u>Liabilities and Fund Balance/Net Assets</u>			
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 72,278	\$ -	\$ 72,278
Due to other governments	255,359	-	255,359
Deferred revenue - unavailable	532,397	(532,397)	-
Total Liabilities	\$ 860,034	\$ (532,397)	\$ 327,637
 <u>Fund Balance/Net Assets</u>			
Fund Balance			
Reserved for loans receivable	\$ 300,000		
Unreserved, undesignated	1,118,539		
Total Fund Balance	\$ 1,418,539	\$ (1,418,539)	
Net Assets			
Invested in capital assets		\$ 25,735	\$ 25,735
Unrestricted		1,950,936	1,950,936
Total Net Assets		\$ 1,976,671	\$ 1,976,671
Total Liabilities and Fund Balance/Net Assets	\$ 2,278,573	\$ 25,735	\$ 2,304,308

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

***EXHIBIT 4
(Continued)***

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2009**

Reconciliation of the General Fund Balance to Net Assets

Fund Balance - General Fund	\$ 1,418,539
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	25,735
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	<u>532,397</u>
Net Assets - Governmental Activities	<u><u>\$ 1,976,671</u></u>

**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, 2009**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 4,411,003	\$ (164,965)	\$ 4,246,038
Investment earnings	22,005	-	22,005
Miscellaneous	3,643	-	3,643
Total Revenues	\$ 4,436,651	\$ (164,965)	\$ 4,271,686
Expenditures/Expenses			
Current			
Human services			
Mental health	4,268,371	59,080	4,327,451
Net Change in Fund Balance/Net Assets	\$ 168,280	\$ (224,045)	\$ (55,765)
Fund Balance/Net Assets - January 1	1,250,259	782,177	2,032,436
Fund Balance/Net Assets - December 31	\$ 1,418,539	\$ 558,132	\$ 1,976,671

**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		\$ 168,280
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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	\$ 1,594	
Current year depreciation expense	(12,856)	(11,262)

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 or decrease in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 532,397	
Deferred revenue - January 1	(745,180)	(212,783)

Change in Net Assets of Governmental Activities		\$ (55,765)
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**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, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 4,392,683	\$ 4,661,505	\$ 4,411,003	\$ (250,502)
Interest on investments	-	-	22,005	22,005
Miscellaneous	-	-	3,643	3,643
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 4,392,683	\$ 4,661,505	\$ 4,436,651	\$ (224,854)
Expenditures				
Current				
Human services				
Mental health	4,693,052	4,961,874	4,268,371	693,503
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ (300,369)	\$ (300,369)	\$ 168,280	\$ 468,649
Fund Balance - January 1	<u>1,250,259</u>	<u>1,250,259</u>	<u>1,250,259</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 949,890</u></u>	<u><u>\$ 949,890</u></u>	<u><u>\$ 1,418,539</u></u>	<u><u>\$ 468,649</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009

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, 2008 and 2009. 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.

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.

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.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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 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 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.

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

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash

Cash is on deposit with Cottonwood County.

2. Capital Assets

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.

3. Accounts Receivable

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

4. 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.

5. 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 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.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. 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.

2. Stewardship, Compliance, and Accountability

General Budget Policies

The Consortium's Executive Board adopts an annual budget on a basis consistent with generally accepted accounting principles. The budget may be amended or modified at any time by the Board. Comparisons of estimated revenues and expenditures to actual are presented in the financial statements for the General Fund.

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. The County may invest in the types of investments authorized by Minn. Stat. §§ 118A.04 and 118A.05. 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, 2008 and 2009.

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

3. Detailed Notes

Assets (Continued)

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, 2008 and 2009, the Consortium's deposits were not exposed to custodial credit risk.

Receivables

Receivables as of December 31, 2008 and 2009, for the Consortium's governmental activities are as follows:

	<u>2008</u>	<u>2009</u>
Governmental Activities		
Accounts	\$ 195,889	\$ 152,340
Loans	300,000	300,000
Due from other governments	<u>839,292</u>	<u>643,165</u>
Total Governmental Activities	<u>\$ 1,335,181</u>	<u>\$ 1,095,505</u>

Loans receivable consists of a \$250,000 advance to Southwestern Mental Health Center for Intensive Residential Treatment Services and a \$50,000 advance to Lincoln, Lyon, and Murray Human Services for development of a specialized Group Residential Housing (GRH) facility. The advance to Southwestern Mental Health Center is due and payable on January 1, 2040. The advance to Lincoln, Lyon, and Murray Human Services will be paid back with services provided by the GRH facility. All other receivables are expected to be received within the following year.

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

3. Detailed Notes

Assets (Continued)

Capital Assets

Capital asset activity for the years ended December 31, 2008 and 2009, was as follows:

2008

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Office furniture and equipment	\$ 122,231	\$ 22,097	\$ 31,478	\$ 112,850
Less: accumulated depreciation	<u>85,575</u>	<u>21,756</u>	<u>31,478</u>	<u>75,853</u>
Total Capital Assets Depreciated, Net	<u>\$ 36,656</u>	<u>\$ 341</u>	<u>\$ -</u>	<u>\$ 36,997</u>

2009

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Office furniture and equipment	\$ 112,850	\$ 1,594	\$ 19,195	\$ 95,249
Less: accumulated depreciation	<u>75,853</u>	<u>12,856</u>	<u>19,195</u>	<u>69,514</u>
Total Capital Assets Depreciated, Net	<u>\$ 36,997</u>	<u>\$ (11,262)</u>	<u>\$ -</u>	<u>\$ 25,735</u>

Depreciation expense was charged to the Human Services function for the years ended December 31, 2008 and 2009.

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 Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust, to cover its property and casualty liabilities.

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

4. Risk Management (Continued)

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 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.

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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, 2008 AND 2009**

	<u>2008</u>	<u>2009</u>
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 1,596,154	\$ 872,322
Grants		
State		
Minnesota Department of Human Services	<u>2,416,848</u>	<u>3,538,681</u>
Total Intergovernmental Revenue	<u><u>\$ 4,013,002</u></u>	<u><u>\$ 4,411,003</u></u>

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

Schedule 2

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

07-1 Preparation of Financial Statements

The Southwestern Minnesota Adult Mental Health Consortium is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the Consortium's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the Consortium has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the Consortium's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control.

We recommend that the Southwestern Minnesota Adult Mental Health Consortium obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP.

Client's Response:

The Southwestern Minnesota Adult Mental Health Consortium will obtain the training and expertise to internally prepare its annual financial reports.

07-2 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the Consortium's internal controls. During our audit, we proposed audit adjustments, which were reviewed and approved by appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the Consortium's internal control.

We recommend that the Southwestern Minnesota Adult Mental Health Consortium modify internal controls over financial reporting to detect misstatements in the financial statements. We encourage review of draft financial statements by a qualified individual to identify potential misstatements.

Client's Response:

The Southwestern Minnesota Adult Mental Health Consortium will modify internal controls over financial reporting to detect misstatements.



REBECCA OTTO
STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Executive Board
Southwestern Minnesota Adult Mental Health Consortium

Internal Control Over Financial Reporting

In planning and performing our audit of 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, 2008 and 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Southwestern Minnesota Adult Mental Health Consortium's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Consortium's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the deficiencies in internal control over financial reporting that we considered to be significant

deficiencies described in the accompanying Schedule of Findings and Recommendations as items 07-1 and 07-2. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Minnesota Legal Compliance

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, 2008 and 2009, which collectively comprise the Consortium's basic financial statements. 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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance with public indebtedness or miscellaneous provisions because most of these provisions were not applicable to the Southwestern Minnesota Adult Mental Health Consortium.

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.

The Southwestern Minnesota Adult Mental Health Consortium's written responses to the significant deficiencies identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Consortium's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Executive Board, management, and others within the Southwestern Minnesota Adult Mental Health Consortium 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

May 14, 2010