

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, 2006 AND 2007

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, 2006 and 2007



**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
2007

Governing Board	Representing	Term Expires
Chair Lee McAllister	Nobles County	January 2008
Vice Chair Carmen Clementson	Kandiyohi County	January 2008
Treasurer Craig Myers	Cottonwood County	January 2008
Members		
Mary Fischer	Lincoln, Lyon, and Murray Counties	January 2008
Leah Lundgren	McLeod County	January 2008
Joel Churness	Lac qui Parle County	January 2008
Betty Christensen	Chippewa County	January 2008
Vacant	Northern Region Consumer Representative	January 2008
Marya Manfred	Southern Region Consumer Representative	January 2008
Sandra Butturff	State Operated Services	January 2008
Scott Johnson	Southwestern Mental Health Center	January 2008
Randy Ehlers	Rock County	January 2008
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

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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, 2006 and 2007, 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, 2006 and 2007, 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

March 26, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006 AND 2007
(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, 2006 and 2007. 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 governing 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 2006, the assets of the Southwestern Minnesota Adult Mental Health Consortium exceeded its liabilities by \$948,177, of which \$44,472 is invested in capital assets (Exhibit 1), leaving unrestricted net assets of \$903,705. For 2007, the assets of the Southwestern Minnesota Adult Mental Health Consortium exceeded its liabilities by \$1,360,256, of which \$36,656 is invested in capital assets (Exhibit 4), leaving unrestricted net assets of \$1,323,600. The Southwestern Minnesota Adult Mental Health Consortium's total net assets increased from \$948,177 in 2006 to \$1,360,256 in 2007, for an increase of \$412,079.

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 \$1,360,256 at the close of 2007. The largest portion of the Consortium's net assets reflects current assets.

	Net Assets		
	2007	2006	2005 (Restated)
Assets			
Current and other assets	\$ 1,646,935	\$ 1,347,795	\$ 1,074,849
Capital assets	36,656	44,472	73,283
Total Assets	<u>\$ 1,683,591</u>	<u>\$ 1,392,267</u>	<u>\$ 1,148,132</u>
Liabilities			
Other liabilities	\$ 323,335	\$ 444,090	\$ 411,281
Net Assets			
Invested in capital assets, net of related debt	\$ 36,656	\$ 44,472	\$ 73,283
Unrestricted	1,323,600	903,705	663,568
Total Net Assets	<u>\$ 1,360,256</u>	<u>\$ 948,177</u>	<u>\$ 736,851</u>

Governmental Activities

The Southwestern Minnesota Adult Mental Health Consortium's activities increased the net assets during 2006 by \$211,326, representing a 29 percent increase. In 2007, the net assets increased by \$412,079, representing a 43 percent increase. Key elements in this increase in net assets are as follows:

	Changes in Net Assets		
	2007	2006	2005 (Restated)
Revenues			
Intergovernmental	\$ 3,215,412	\$ 3,446,629	\$ 2,045,552
Miscellaneous	144,282	95,821	1,000
Total Revenues	\$ 3,359,694	\$ 3,542,450	\$ 2,046,552
Expenditures			
Human Services	2,947,615	3,331,124	1,671,076
Increase (Decrease) in Net Assets	\$ 412,079	\$ 211,326	\$ 375,476
Net Assets - January 1 (Restated)	948,177	736,851	361,375
Net Assets - December 31	<u>\$ 1,360,256</u>	<u>\$ 948,177</u>	<u>\$ 736,851</u>

FINANCIAL ANALYSIS OF THE GENERAL FUND

Revenues for the Southwestern Minnesota Adult Mental Health Consortium's fund decreased from 2006 to 2007 by \$135,627, while total expenditures decreased by \$421,220 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 2006 was 99.9 percent of the total revenue received, or \$3,446,629. For 2007 (Statement of Revenues, Expenditures, and Changes in Fund Balance on Exhibit 5), the amount that was received through intergovernmental revenue was 97.1 percent of the total revenue received, or \$3,215,412.

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 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-MA obligation.

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, 2006 and 2007, totaled \$44,472 and \$36,656, respectively. This investment in capital assets includes office furniture and equipment.

Long-Term Debt

At the end of the fiscal years 2006 and 2007, 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 2008 budget based on a preliminary grant award. The 2008 budget does reflect the addition of grant funds that are equivalent to the salary and benefits of 27 State Operated Services (SOS) staff that have been assigned to the Consortium since 1997. Previously, the salary/benefit of these staff were part of SOS appropriations. Under enacted legislation, these staff resource salaries/benefits were granted to Mental Health Initiatives such as the Consortium. All but three of the positions are in the cost-based services, Assertive Community Treatment (A.C.T.). Because of the cost-based

service aspect, the salaries payable to SOS will come from earned revenues from the provision of A.C.T. This allows for the actual grant funds to be used for payment of non-MA covered services and for new program development.

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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2006 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, 2006**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 843,861	\$ -	\$ 843,861
Accounts receivable	125,850	-	125,850
Due from other governments	378,084	-	378,084
Capital assets			
Depreciable - net	-	44,472	44,472
Total Assets	\$ 1,347,795	\$ 44,472	\$ 1,392,267
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 377,165	\$ -	\$ 377,165
Due to other governments	66,925	-	66,925
Deferred revenue - unavailable	123,766	(123,766)	-
Total Liabilities	\$ 567,856	\$ (123,766)	\$ 444,090
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	779,939	\$ (779,939)	
Total Liabilities and Fund Balance	\$ 1,347,795		
Net Assets			
Invested in capital assets		\$ 44,472	\$ 44,472
Unrestricted		903,705	903,705
Total Net Assets		\$ 948,177	\$ 948,177
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 779,939
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.			44,472
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			123,766
Net Assets - Governmental Activities			\$ 948,177

**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, 2006**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 3,446,629	\$ -	\$ 3,446,629
Miscellaneous	1,408	94,413	95,821
Total Revenues	\$ 3,448,037	\$ 94,413	\$ 3,542,450
Expenditures/Expenses			
Current			
Human services			
Mental health	3,331,666	(542)	3,331,124
Net Change in Fund Balance/Net Assets	\$ 116,371	\$ 94,955	\$ 211,326
Fund Balance/Net Assets - January 1, as previously reported	\$ 577,303	\$ 73,283	\$ 650,586
Restatement - Note 1.E.	86,265	-	86,265
Fund Balance/Net Assets - January 1, as restated	\$ 663,568	\$ 73,283	\$ 736,851
Fund Balance/Net Assets - December 31	\$ 779,939	\$ 168,238	\$ 948,177
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			\$ 116,371
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		\$ 719	
Current year depreciation expense		(29,530)	(28,811)
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		\$ 123,766	
Deferred revenue - January 1		-	123,766
Change in Net Assets of Governmental Activities			\$ 211,326

**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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 2,722,469	\$ 3,470,588	\$ 3,446,629	\$ (23,959)
Miscellaneous	-	-	1,408	1,408
Total Revenues	\$ 2,722,469	\$ 3,470,588	\$ 3,448,037	\$ (22,551)
Expenditures				
Current				
Human services				
Mental health	2,581,871	3,329,990	3,331,666	(1,676)
Net Change in Fund Balance	\$ 140,598	\$ 140,598	\$ 116,371	\$ (24,227)
Fund Balance - January 1 , as previously reported	\$ 577,303	\$ 577,303	\$ 577,303	\$ -
Restatement - Note 1.E.	86,265	86,265	86,265	-
Fund Balance - January 1, restated	\$ 663,568	\$ 663,568	\$ 663,568	\$ -
Fund Balance - December 31	\$ 804,166	\$ 804,166	\$ 779,939	\$ (24,227)

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2007 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, 2007**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 1,276,699	\$ -	\$ 1,276,699
Accounts receivable	143,328	-	143,328
Due from other governments	226,908	-	226,908
Capital assets			
Depreciable - net	-	36,656	36,656
Total Assets	\$ 1,646,935	\$ 36,656	\$ 1,683,591
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 164,031	\$ -	\$ 164,031
Due to other governments	159,304	-	159,304
Deferred revenue - unavailable	141,697	(141,697)	-
Total Liabilities	\$ 465,032	\$ (141,697)	\$ 323,335
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved, undesignated	1,181,903	\$ (1,181,903)	
Total Liabilities and Fund Balance	\$ 1,646,935		
Net Assets			
Invested in capital assets		\$ 36,656	\$ 36,656
Unrestricted		1,323,600	1,323,600
Total Net Assets		\$ 1,360,256	\$ 1,360,256
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 1,181,903
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.			36,656
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			141,697
Net Assets - Governmental Activities			\$ 1,360,256

**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, 2007**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 3,215,412	\$ -	\$ 3,215,412
Miscellaneous	96,998	47,284	144,282
Total Revenues	\$ 3,312,410	\$ 47,284	\$ 3,359,694
Expenditures/Expenses			
Current			
Human services			
Mental health	2,910,446	37,169	2,947,615
Net Change in Fund Balance/Net Assets	\$ 401,964	\$ 10,115	\$ 412,079
Fund Balance/Net Assets - January 1	779,939	168,238	948,177
Fund Balance/Net Assets - December 31	\$ 1,181,903	\$ 178,353	\$ 1,360,256
 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			\$ 401,964
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		\$ 7,896	
Current year depreciation expense		(15,712)	(7,816)
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		\$ 141,697	
Deferred revenue - January 1		(123,766)	17,931
Change in Net Assets of Governmental Activities			\$ 412,079

**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, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 2,650,956	\$ 2,874,406	\$ 3,215,412	\$ 341,006
Miscellaneous	-	-	96,998	96,998
Total Revenues	\$ 2,650,956	\$ 2,874,406	\$ 3,312,410	\$ 438,004
Expenditures				
Current				
Human services				
Mental health	2,693,146	3,066,596	2,910,446	156,150
Net Change in Fund Balance	\$ (42,190)	\$ (192,190)	\$ 401,964	\$ 594,154
Fund Balance - January 1	779,939	779,939	779,939	-
Fund Balance - December 31	\$ 737,749	\$ 587,749	\$ 1,181,903	\$ 594,154

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007

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, 2006 and 2007. 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, 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 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 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.

**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.

E. Restatement of Fund Balance/Net Assets

At January 1, 2006, fund balance and net assets were restated by \$86,265 to correct revenues that were incorrectly presented as deferred unearned in the 2005 financial report.

2. Stewardship, Compliance, and Accountability

A. 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.

B. Expenditures in Excess of Budget

The General Fund had expenditures in excess of final budget for the year ended December 31, 2006.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 3,331,666	\$ 3,329,990	\$ 1,676

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

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, 2006 and 2007.

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, 2006 and 2007, 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, 2006 and 2007.

Capital Assets

Capital asset activity for the years ended December 31, 2006 and 2007, was as follows:

2006

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Office furniture and equipment	\$ 171,688	\$ 719	\$ 31,835	\$ 140,572
Less: accumulated depreciation	<u>98,405</u>	<u>29,530</u>	<u>31,835</u>	<u>96,100</u>
Total Capital Assets Depreciated, Net	<u>\$ 73,283</u>	<u>\$ (28,811)</u>	<u>\$ -</u>	<u>\$ 44,472</u>

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

3. Detailed Notes

Assets

Capital Assets (Continued)

2007

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Office furniture and equipment	\$ 140,572	\$ 7,896	\$ 26,237	\$ 122,231
Less: accumulated depreciation	<u>96,100</u>	<u>15,712</u>	<u>26,237</u>	<u>85,575</u>
Total Capital Assets Depreciated, Net	<u>\$ 44,472</u>	<u>\$ (7,816)</u>	<u>\$ -</u>	<u>\$ 36,656</u>

Depreciation expense was charged to the Human Services function for the years ended December 31, 2006 and 2007.

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 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, 2006 AND 2007**

	2006	2007
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 2,043,516	\$ 2,030,776
Payments		
Local grants	5,201	-
Grants		
State		
Minnesota Department of Human Services	1,397,912	1,164,636
Federal		
Department of Health and Human Services	-	20,000
Total Intergovernmental Revenue	\$ 3,446,629	\$ 3,215,412

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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, 2006 AND 2007

I. INTERNAL CONTROL

ITEMS ARISING THIS YEAR

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 client will prepare its annual statements in accordance with GAAP.

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 the following adjustments that resulted in significant changes to the Consortium's financial statements.

- the recording of additional receivables and the related revenues in both 2006 (\$124,000) and 2007 (\$284,000),
- the recording of additional payables and the related expenditures in both 2006 (\$349,000) and 2007 (\$109,000), and
- corrections to reclassify various revenues in both 2006 (\$56,000) and 2007 (\$201,000).

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

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 client has modified internal controls to detect misstatements in its financial statements.

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Contracting - Advertising for Bids (05-1)

The Consortium failed to advertise for sealed bids on a contract for new computers, as required by Minn. Stat. § 471.345, subd. 3.

Resolution

The Consortium did not contract for any items requiring the advertisement for bids in 2006 or 2007.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2006 and 2007, 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 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 on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Consortium's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Consortium's financial statements that is more than inconsequential will not be prevented or detected by the Consortium's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Consortium's internal control.

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 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 described in the accompanying Schedule of Findings and Recommendations as items 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.

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, 2006 and 2007, which collectively comprise the Consortium's basic financial statements and have issued our report thereon dated March 26, 2009. 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 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 report 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

March 26, 2009