

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, 2012 AND 2013

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, 2012 and 2013



**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
2013

Governing Board	Representing	Term Expires
Chair Pamela Rud	Big Stone County	January 2015
Vice Chair Stacy Jorgensen	Southwest Health and Human Services	January 2015
Secretary/Treasurer Craig Myers	Cottonwood County	January 2015
Members		
Leah Lundgren	McLeod County	January 2015
Cindy Nelson	Southwest Health and Human Services	January 2015
Stacie Golombiecki	Nobles County	January 2015
Trich Lien	Northern Region Consumer Representative	January 2015
Corinne Torkelson	Kandiyohi County	January 2015
Luann Sasse	Southern Region Consumer Representative	January 2015
Sarah Ackerman	Western Mental Health Center	January 2015
Deanna Steckmann	Swift County	January 2015
Director Linda Sjoberg (Non-Voting Member)	Minnesota Department of Human Services	Indefinite
Liaison Jana Nicolaison (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

Governing Board
Southwestern Minnesota Adult Mental Health Consortium
Windom, Minnesota

Report on the Financial Statements

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, 2012 and 2013, and the related notes to the financial statements, which collectively comprise the Consortium's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Consortium's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control. Accordingly, we

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Southwestern Minnesota Adult Mental Health Consortium as of December 31, 2012 and 2013, and the respective changes in financial position thereof and the budgetary comparisons of the General Fund for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2012 the Consortium adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwestern Minnesota Adult Mental Health Consortium's basic financial statements. The Schedule of Intergovernmental Revenue is presented for the purpose of

additional analysis and is not a required part of the basic financial statements. The Schedule of Intergovernmental Revenue is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 31, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012 AND 2013
(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, 2012 and 2013. 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, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties, 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: eight representatives from member counties (four from the Northern Region and four from the Southern Region), two consumer representatives, 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 2012, the assets of the Southwestern Minnesota Adult Mental Health Consortium exceeded its liabilities by \$1,285,301 of which \$31,633 is the investment in capital assets (Exhibit 1), leaving unrestricted net position of \$1,253,668. For 2013, the assets of the Southwestern Minnesota Adult Mental Health Consortium exceeded its liabilities by \$1,081,876 of which \$22,268 is the investment in capital assets (Exhibit 4), leaving unrestricted net position of \$1,059,608. The Southwestern Minnesota Adult Mental Health Consortium's total net position decreased by \$203,425 from \$1,285,301 in 2012 to \$1,081,876 in 2013.

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 statements that combine government-wide financial statements and fund financial statements, budgetary comparison 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 for each year 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 of the first two statements for each year presents the governmental activities' Statement of Net Position 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 position 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 position serves as a useful indicator of financial position. The Southwestern Minnesota Adult Mental Health Consortium's assets exceeded liabilities by \$1,081,876 at the close of 2013. The largest portion of the Consortium's net position reflects current assets.

	Net Position		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Current and other assets	\$ 1,408,855	\$ 1,717,746	\$ 2,092,233
Capital assets	<u>22,268</u>	<u>31,633</u>	<u>35,329</u>
Total Assets	<u>\$ 1,431,123</u>	<u>\$ 1,749,379</u>	<u>\$ 2,127,562</u>
Liabilities			
Other liabilities	<u>\$ 349,247</u>	<u>\$ 464,078</u>	<u>\$ 564,148</u>
Net Position			
Investment in capital assets	\$ 22,268	\$ 31,633	\$ 35,329
Unrestricted	<u>1,059,608</u>	<u>1,253,668</u>	<u>1,528,085</u>
Total Net Position	<u>\$ 1,081,876</u>	<u>\$ 1,285,301</u>	<u>\$ 1,563,414</u>

Governmental Activities

The Southwestern Minnesota Adult Mental Health Consortium's activities decreased net position during 2012 by \$278,113, representing an 18 percent decrease. In 2013, net position decreased by \$203,425, representing a 16 percent decrease. Key elements in these changes in net position are as follows:

	Changes in Net Position		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues			
Intergovernmental	\$ 3,285,183	\$ 3,772,307	\$ 3,734,047
Investment earnings	7,318	8,504	10,432
Miscellaneous	<u>13,073</u>	<u>45,403</u>	<u>-</u>
Total Revenues	<u>\$ 3,305,574</u>	<u>\$ 3,826,214</u>	<u>\$ 3,744,479</u>
Expenditures			
Human services	<u>3,508,999</u>	<u>4,104,327</u>	<u>4,103,387</u>
Increase (Decrease) in Net Position	<u>\$ (203,425)</u>	<u>\$ (278,113)</u>	<u>\$ (358,908)</u>
Net Position - January 1	<u>1,285,301</u>	<u>1,563,414</u>	<u>1,922,322</u>
Net Position - December 31	<u>\$ 1,081,876</u>	<u>\$ 1,285,301</u>	<u>\$ 1,563,414</u>

FINANCIAL ANALYSIS OF THE GENERAL FUND

Revenues for the Southwestern Minnesota Adult Mental Health Consortium's General Fund increased from 2011 to 2012 by \$248,938, while total expenditures decreased by \$19,156 during the same period. From 2012 to 2013, revenues decreased by \$950,129, while total expenditures decreased by \$600,997 during the same period.

As shown in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance on Exhibit 2, the amount that was received through intergovernmental revenue in 2012 was 98.7 percent of the total revenue received, or \$3,950,984. For 2013 (General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance on Exhibit 5), the amount that was received through intergovernmental revenue was 99.3 percent of the total revenue received, or \$3,034,371.

GENERAL FUND BUDGETARY HIGHLIGHTS

In 2012, grant funding was cut by \$341,157. The Governing Board decided to spend reserve dollars and allow for an orderly transition of services for the well-being of the consumers being serviced. In 2013, the Consortium had a one-time grant for non-medical assistance services associated with crisis services. The 2013 spending level reflects the reduction of services being provided while continuing to provide the most needed services. Since the Southwestern Minnesota Adult Mental Health Consortium had a number of State employees providing billable services, during the federal government shutdown, it was not providing those services so revenue was reduced. Also in 2013, the Southwestern Minnesota Adult Mental Health Consortium's revenue was reduced due to a rate reduction of approximately 15 percent.

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, 2012 and 2013, totaled \$31,633 and \$22,268, respectively. This net investment in capital assets includes office furniture and equipment.

Long-Term Debt

At the end of the fiscal years 2012 and 2013, the Southwestern Minnesota Adult Mental Health Consortium had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Southwestern Minnesota Adult Mental Health Consortium adopted the 2014 budget based on a preliminary grant award. The 2014 budget reflects projected actual costs for coverage of Non-Medicaid services. The 2014 budget also continues the expectation that grant funding will not increase and the Southwestern Minnesota Adult Mental Health Consortium will need to

focus on funding core services. In 2014, the process to transfer the Buffalo Ridge ACT team from the Southwestern Minnesota Adult Mental Health Consortium's control to the Western Mental Health System's control was begun; this transfer will be effective January 1, 2015. In 2014, the Southwestern Minnesota Adult Mental Health Consortium was notified by Minnesota State Operated Services (SOS) that as of June 30, 2015, at the latest, it would no longer contract SOS employees to the Southwestern Minnesota Adult Mental Health Consortium. The Southwestern Minnesota Adult Mental Health Consortium is contracting with different partners to become the employer of record for some employees, and some employees will be laid off.

The Southwestern Minnesota Adult Mental Health Consortium has contracted directly with its Director to continue in that position. This change was effective in October 2014.

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, Director, 2200 - 23rd Street N.E., Suite 2050, Willmar, Minnesota 56201.

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2012 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 POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2012**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Current assets			
Cash	\$ 978,796	\$ -	\$ 978,796
Accounts receivable	134,117	-	134,117
Loans receivable	300,000	(300,000)	-
Allowance for uncollectible loans receivable	(50,000)	50,000	-
Due from other governments	354,833	-	354,833
Noncurrent assets			
Long-term loans receivable	-	250,000	250,000
Capital assets			
Depreciable - net	-	31,633	31,633
Total Assets	\$ 1,717,746	\$ 31,633	\$ 1,749,379
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 126,978	\$ -	\$ 126,978
Due to other governments	337,100	-	337,100
Total Liabilities	\$ 464,078	\$ -	\$ 464,078
 Deferred Inflows of Resources			
Unavailable revenue	\$ 182,455	\$ (182,455)	\$ -
 Fund Balance/Net Position			
Fund Balance			
Nonspendable for loans receivable	\$ 250,000		
Unassigned	821,213		
Total Fund Balance	\$ 1,071,213	\$ (1,071,213)	
Net Position			
Investment in capital assets		\$ 31,633	\$ 31,633
Unrestricted		1,253,668	1,253,668
Total Net Position		\$ 1,285,301	\$ 1,285,301
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 1,717,746	\$ 31,633	\$ 1,749,379

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 POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2012**

Reconciliation of the General Fund Balance to Net Position

Fund Balance - General Fund	\$ 1,071,213
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	31,633
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in governmental funds.	<u>182,455</u>
Net Position - Governmental Activities	<u><u>\$ 1,285,301</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, 2012**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 3,950,984	\$ (178,677)	\$ 3,772,307
Investment earnings	8,504	-	8,504
Miscellaneous	45,403	-	45,403
	\$ 4,004,891	\$ (178,677)	\$ 3,826,214
Expenditures/Expenses			
Current			
Human services			
Mental health	4,100,631	3,696	4,104,327
	\$ (95,740)	\$ (182,373)	\$ (278,113)
Net Change in Fund Balance/Net Position			
	\$ 1,166,953	\$ 396,461	\$ 1,563,414
Fund Balance/Net Position - January 1			
	\$ 1,071,213	\$ 214,088	\$ 1,285,301

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

Net Change in Fund Balance	\$ (95,740)
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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	\$ 8,147	
Current year depreciation expense	(11,843)	(3,696)

In governmental 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 governmental fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.

Unavailable revenue - December 31	\$ 182,455	
Unavailable revenue - January 1	(361,132)	(178,677)

Change in Net Position of Governmental Activities	\$ (278,113)
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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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 3,917,768	\$ 3,917,768	\$ 3,950,984	\$ 33,216
Investment earnings	-	-	8,504	8,504
Miscellaneous	-	-	45,403	45,403
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 3,917,768	\$ 3,917,768	\$ 4,004,891	\$ 87,123
Expenditures				
Current				
Human services				
Mental health	3,931,664	3,931,664	4,100,631	(168,967)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ (13,896)	\$ (13,896)	\$ (95,740)	\$ (81,844)
Fund Balance - January 1	<u>1,166,953</u>	<u>1,166,953</u>	<u>1,166,953</u>	<u>-</u>
Fund Balance - December 31	<u><u>1,153,057</u></u>	<u><u>1,153,057</u></u>	<u><u>1,071,213</u></u>	<u><u>(81,844)</u></u>

2013 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 POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2013**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Current assets			
Cash	\$ 596,903	\$ -	\$ 596,903
Accounts receivable	81,399	-	81,399
Loans receivable	300,000	(300,000)	-
Allowance for uncollectible loans receivable	(50,000)	50,000	-
Due from other governments	480,553	-	480,553
Noncurrent assets			
Long-term loans receivable	-	250,000	250,000
Capital assets			
Depreciable - net	-	22,268	22,268
Total Assets	\$ 1,408,855	\$ 22,268	\$ 1,431,123
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 88,043	\$ -	\$ 88,043
Due to other governments	261,204	-	261,204
Total Liabilities	\$ 349,247	\$ -	\$ 349,247
Deferred Inflows of Resources			
Unavailable revenue	\$ 433,267	\$ (433,267)	\$ -
Fund Balance/Net Position			
Fund Balance			
Nonspendable for loans receivable	\$ 250,000		
Unassigned	376,341		
Total Fund Balance	\$ 626,341	\$ (626,341)	
Net Position			
Investment in capital assets		\$ 22,268	\$ 22,268
Unrestricted		1,059,608	1,059,608
Total Net Position		\$ 1,081,876	\$ 1,081,876
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 1,408,855	\$ 22,268	\$ 1,431,123

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 4
(Continued)***

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2013**

Reconciliation of the General Fund Balance to Net Position

Fund Balance - General Fund	\$ 626,341
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	22,268
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in governmental funds.	<u>433,267</u>
Net Position - Governmental Activities	<u><u>\$ 1,081,876</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, 2013**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 3,034,371	\$ 250,812	\$ 3,285,183
Investment earnings	7,318	-	7,318
Miscellaneous	13,073	-	13,073
Total Revenues	\$ 3,054,762	\$ 250,812	\$ 3,305,574
Expenditures/Expenses			
Current			
Human services			
Mental health	3,499,634	9,365	3,508,999
Net Change in Fund Balance/Net Position	\$ (444,872)	\$ 241,447	\$ (203,425)
Fund Balance/Net Position - January 1	1,071,213	214,088	1,285,301
Fund Balance/Net Position - December 31	\$ 626,341	\$ 455,535	\$ 1,081,876

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

Net Change in Fund Balance **\$ (444,872)**

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	\$ 1,806	
Current year depreciation expense	(11,171)	(9,365)

In governmental 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 governmental fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.

Unavailable revenue - December 31	\$ 433,267	
Unavailable revenue - January 1	(182,455)	250,812

Change in Net Position of Governmental Activities **\$ (203,425)**

**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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 3,601,866	\$ 3,601,866	\$ 3,034,371	\$ (567,495)
Investment earnings	-	-	7,318	7,318
Miscellaneous	-	-	13,073	13,073
Total Revenues	\$ 3,601,866	\$ 3,601,866	\$ 3,054,762	\$ (547,104)
Expenditures				
Current				
Human services				
Mental health	3,615,762	3,615,762	3,499,634	116,128
Net Change in Fund Balance	\$ (13,896)	\$ (13,896)	\$ (444,872)	\$ (430,976)
Fund Balance - January 1	1,071,213	1,071,213	1,071,213	-
Fund Balance - December 31	\$ 1,057,317	\$ 1,057,317	\$ 626,341	\$ (430,976)

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2013

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, 2012 and 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Southwestern Minnesota Adult Mental Health Consortium are discussed below.

Changes in Accounting Principles

During 2012, the Consortium adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.4. for additional information regarding the Consortium's deferred outflows/inflows of resources.

Restatements of December 31, 2011, net position or fund balance were not required as a result of adopting these changes.

A. Financial Reporting Entity

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

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The Consortium is governed by an 11-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, and one representative selected by the Mental Health Centers serving the 18 counties.

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 these exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Consortium as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Consortium's net position is reported in two parts: investment in capital assets and unrestricted net position. 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.

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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 long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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 shown net of an allowance for uncollectible accounts.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditures/expense) until then. The Consortium does not have any types of deferred outflows of resources in the current year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Consortium has only one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

5. Classification of Net Position

Net position in the government-wide financial statements is classified in the following components:

Investment in capital assets - the portion of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted - the portion of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

5. Classification of Net Position (Continued)

Unrestricted - the portion of net position not included in the net investment in capital assets or restricted components.

6. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Consortium is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts are restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Governing Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of actions (ordinance or resolution) it employed to previously commit these amounts.

Assigned - amounts in the assigned fund balance classification are those the Consortium intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

6. Classification of Fund Balances (Continued)

The Consortium applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

7. 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 Governing 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.

**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. 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.

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. Cottonwood County has adopted a policy for custodial credit risk by obtaining collateral or bond for all uninsured amounts on deposit. Cottonwood County complied with this requirement at December 31, 2012. At December 31, 2013, Cottonwood County's deposits were exposed to custodial credit risk for \$444,500 of deposits not secured by insurance, collateral, or bond.

Receivables

Receivables (net of allowance for uncollectible loans receivable) as of December 31, 2012 and 2013, for the Consortium's governmental activities are as follows:

	2012	2013
Governmental Activities		
Accounts	\$ 134,117	\$ 81,399
Loans	300,000	300,000
Due from other governments	354,833	480,553
Subtotal Governmental Activities	\$ 788,950	\$ 861,952
Less: Allowance for uncollectible loans receivable	(50,000)	(50,000)
Total Governmental Activities	\$ 738,950	\$ 811,952

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

3. Detailed Notes

Assets

Receivables (Continued)

Loans receivable consists of a \$250,000 advance to Southwestern Mental Health Center for Intensive Residential Treatment Services and a \$50,000 advance to Southwest Health and 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 Southwest Health and Human Services will be forgiven if the Western Mental Health Center continues to operate a Board and Lodge facility for a period of seven (7) years. All other receivables are expected to be received within the following year.

Capital Assets

Capital asset activity for the years ended December 31, 2012 and 2013, was as follows:

	Beginning Balance January 1, 2012	Increase	Decrease	Ending Balance December 31, 2012
Office furniture and equipment	\$ 64,775	\$ 8,147	\$ -	\$ 72,922
Less: accumulated depreciation	29,446	11,843	-	41,289
Total Capital Assets				
Depreciated, Net	<u>\$ 35,329</u>	<u>\$ (3,696)</u>	<u>\$ -</u>	<u>\$ 31,633</u>
	Beginning Balance January 1, 2013	Increase	Decrease	Ending Balance December 31, 2013
Office furniture and equipment	\$ 72,922	\$ 1,806	\$ -	\$ 74,728
Less: accumulated depreciation	41,289	11,171	-	52,460
Total Capital Assets				
Depreciated, Net	<u>\$ 31,633</u>	<u>\$ (9,365)</u>	<u>\$ -</u>	<u>\$ 22,268</u>

Depreciation expense was charged to the human services function for the years ended December 31, 2012 and 2013.

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

4. Risk Management

The Southwestern Minnesota Adult Mental Health Consortium is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. For these risks, the Consortium has entered into a joint powers agreement with certain Minnesota counties to form the Minnesota Counties Intergovernmental 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 five years.

5. Contingent Liabilities

A. Unemployment Compensation

Background

The Southwestern Minnesota Adult Mental Health Consortium has in the past contracted with Minnesota State Operated Services (SOS). SOS notified the Consortium in 2010 that it would no longer offer it the option of replacing SOS staff that had left employment at the Consortium with new SOS staff.

The Governing Board of the Consortium then determined that for a number of reasons, the Consortium would not be the employer of record when SOS staff were replaced. Instead, the Consortium would look to member counties and area service providers to be the employer of the staff members; with the Consortium contracting for the employees' services. As part of the contract for the services, the Consortium would agree that, in the event a contracted employee becomes eligible for unemployment compensation (layoff or other termination), the Consortium will reimburse the employer for any unemployment compensation cost incurred.

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

5. Contingent Liabilities

A. Unemployment Compensation (Continued)

Contingent Liability

The Consortium operates under a joint powers agreement between 18 counties in Southwestern Minnesota. Due to the contractual agreement between the Consortium and the different entities that have hired employees and contracted them to the Consortium, there is a contingent liability of the Consortium (and subsequently to the members of the joint powers) due to potential unemployment compensation claims.

The amount of the potential claims is very difficult to determine with any certainty. Some of the variables are:

1. Length of time benefits are received
 - a. Time needed for employee to be re-employed
 - b. Length of eligibility
 - i. Not all eligible benefits are chargeable
 - ii. Federal eligibility changes based on economic and political climate;
2. Salary of employee
 - a. Base or maximum on which benefits are based can change;
3. Number of weeks an employee has been receiving benefit eligible salary;
4. Whether or not benefits are paid based on a benefit program where the benefits are chargeable to the employer, or if fully or partially chargeable; and
5. The number of weeks an employee has been receiving salary that the Consortium is responsible for.

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

5. Contingent Liabilities

A. Unemployment Compensation (Continued)

Formula

Using information from the Minnesota Unemployment website, the following benefit table was constructed. This table looks at benefits based only on State criteria, with all benefits chargeable to the Consortium. Following the benefit table are some definitions from the Minnesota Unemployment website that were used to construct the table. The salaries used were of current job classifications as of April 2013, rounded to the nearest \$5,000. There is one column of benefits calculated for 26 weeks (the State of Minnesota maximum).

Benefit Table

<u>Number of Employees</u>	<u>Gross Yearly Salary</u>	<u>Weekly Gross Wage</u>	<u>Weekly Benefit</u>	<u>Number of Weeks</u>	<u>Maximum Total Benefits</u>	<u>Contingent Cost to Consortium</u>
1	\$30,000	\$ 577	\$ 289	26	\$ 7,514	\$ 7,514
2	35,000	673	337	26	8,762	17,524
2	40,000	769	385	26	10,010	20,020
1	45,000	865	433	26	11,258	11,258
5	50,000	962	481	26	12,506	62,530
1	55,000	1,058	529	26	13,754	13,754
	60,000	1,154	577	26	15,002	-
	65,000	1,250	*585	26	15,210	-
1	70,000	1,346	*585	26	15,210	15,210
Total Contingent Cost to Consortium						<u>\$ 147,810</u>

Contingent Cost to Each County \$ 8,212

*\$585 is the State maximum

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

5. Contingent Liabilities

A. Unemployment Compensation (Continued)

Definitions

Weekly and Maximum Benefit Amounts

The unemployment benefit is approximately half of the average weekly gross wage in the base period up to the State maximum of \$585 for 2013. The maximum benefit amount on an account is 26 times the weekly benefit amount.

The weekly benefit amount is the higher of:

1. The highest quarter of wages in the base period divided by 26, up to a maximum of \$372, or
2. The total base period wages divided by 104 up to a maximum of \$585.

The maximum amount of benefits available is the lower of:

1. The weekly benefit amount multiplied by 26, or
2. The total base period wages divided by 3.

Base Period

The base period is one-year (four calendar quarters) period of time. The base period depends on the benefit account date and the wages paid in each calendar quarter during the past five completed quarters.

For applications in the first month of a calendar quarter (January, April, July, or October):

1. The base period is the first four of the last five completed quarters if there are enough wages to establish a benefit account. If not enough wages, then
2. The base period is the last four completed quarters.

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

5. Contingent Liabilities

A. Unemployment Compensation

Definitions

Base Periods (Continued)

For applications in the second or third months of a calendar quarter (February, March, May, June, August, September, November, or December):

1. The wages paid in the following time periods are compared:
 - a. the last four completed quarters, and
 - b. the first four of the last five completed quarters.
2. The time period with the greater amount of wages is the base period.
3. If the wages are the same in both time periods, the base period is the last four completed quarters.

B. Accrued Vacation and Sick Leave for Contracted Employees

The current 13 contracted employees work for McLeod County and the Western Mental Health Center. The Consortium could be contingently liable for accrued vacation or sick leave paid at severance.

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

5. Contingent Liabilities

B. Accrued Vacation and Sick Leave for Contracted Employees (Continued)

Sick Leave

Neither McLeod County nor the Western Mental Health Center pay accumulated sick leave in the event an employee leaves employment.

Vacation

Below is the accumulated vacation payable for the 13 currently contracted employees.

	<u>Total Liability</u>
McLeod County	\$ 13,114
Western Mental Health Center	<u>1,715</u>
Total	<u>\$ 14,829</u>

6. Subsequent Event

During 2013, the Cottonwood County Board of Commissioners voted for the County's human service function (Consortium's fiscal agent) to join the newly organized Des Moines Valley Health and Human Services (DVHHS). As of January 1, 2014, DVHHS is the Consortium's fiscal agent.

SUPPLEMENTARY INFORMATION

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SCHEDULE

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

EXHIBIT A-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2013**

	<u>2012</u>	<u>2013</u>
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 972,274	\$ 485,150
Grants		
State		
Minnesota Department of Human Services	<u>2,978,710</u>	<u>2,549,221</u>
Total Intergovernmental Revenue	<u><u>\$ 3,950,984</u></u>	<u><u>\$ 3,034,371</u></u>

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2013

INTERNAL CONTROL OVER FINANCIAL REPORTING

ITEM ARISING THIS YEAR

Finding 2013-001

Audit Adjustments

Criteria: 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 of the financial statements on a timely basis.

Condition: During our audit, we proposed an audit adjustment which was reviewed and approved by the appropriate staff and is reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

Context: The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: A reclassification in net position of \$250,000 was made, at December 31, 2012 and 2013, to reduce nonspendable for loans receivable and increase unrestricted net position.

Cause: The Consortium informed us that this adjustment was the result of an oversight during the preparation of the Consortium's financial statements.

Recommendation: We recommend that the Consortium review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation 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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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Governing Board
Southwestern Minnesota Adult Mental Health Consortium
Windom, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, 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, 2012 and 2013, and the related notes to the financial statements, which collectively comprise the Consortium's basic financial statements, and have issued our report thereon dated December 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Consortium's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Consortium's internal control. Accordingly, we do not express an opinion on the effectiveness of the Consortium's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This significant deficiency is reported in the Schedule of Findings and Recommendations as item 2013-001.

The Southwestern Minnesota Adult Mental Health Consortium's Response to Finding

The Southwestern Minnesota Adult Mental Health Consortium's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Consortium's response and, accordingly, we express no opinion on it.

Purpose of This Report

This communication is intended solely for the information and use of management, the Governing Board, and others within the 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

December 31, 2014



REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Governing Board
Southwestern Minnesota Adult Mental Health Consortium
Windom, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, 2012 and 2013, and the related notes to the financial statements, which collectively comprise the Consortium's basic financial statements and have issued our report thereon dated December 31, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Consortium's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with public indebtedness or miscellaneous provisions because these provisions were not applicable to the Southwestern Minnesota Adult Mental Health Consortium. Also, the provisions for deposits and investments were tested in conjunction with the audit of Cottonwood County.

In connection with our audit, nothing came to our attention that caused us to believe that the Southwestern Minnesota Adult Mental Health Consortium failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Consortium's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of the Governing Board and management of the Southwestern Minnesota Adult Mental Health Consortium and the State Auditor 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

December 31, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR