Northeast Michigan
Community Mental Health Authority

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2013

Dennis, Gartland & Niergarth

C O N T E N T S

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

The Authority is using an allowable alternative approach to present its financial information. Governmental entities that have single programs are allowed to present a combined government-wide and fund financial statement by using a columnar format that requires no reconciliation between fund types. The operations of the Authority are therefore presented using an Enterprise Fund accounting methodology. Thus, the financial information is presented in a manner similar to a private business enterprise. It is the intent of management that this reporting approach gives the reader a clearer picture of its financial condition.

The Authority as a Whole

The table below shows a comparison of the net position of the Authority as of September 30, 2013 compared to the prior year.

	Total business-type activities	
	2012-13	2011-12
Current assets	$ 6,202,570	$ 6,460,484
Non-current assets	2,598,052	2,567,369
Total assets	8,800,622	9,027,853
Long-term debt outstanding	815,232	816,502
Other liabilities	3,012,281	3,287,601
Total liabilities	3,827,513	4,104,103
Net Position		
Net investment in capital assets	2,598,052	2,567,369
Unrestricted	2,375,057	2,356,381
Total net position	$ 4,973,109	$ 4,923,750

Unrestricted Net Assets consists of $889,312, an internally reserved amount to pay staff their earned leave pay, and $1,485,745, an unreserved amount used to finance day-to-day operations. The $1,485,745 used to finance day-to-day operations represents about 5.6% of current year expenditures, a decrease of (0.2%) as compared to 2011-12. The Authority's total net position increased 1.0% from a year ago.

As allowed by the Michigan Mental Health Code and the Authority's intergovernmental contracts, the Authority has established internal service funds to reserve a portion of its cash balances to fund self-insurance risk. No funds are reserved in this service fund in either 2012-13 or in 2011-12.

The Authority has restricted a portion of its cash balance to fund 100% of its long-term debt obligations to pay for staff earned time off. The Authority has no other debt outstanding. The Authority's total Long-Term Debt fund decreased ($1,417) or (0.2%) from a year ago.

The table below shows a comparison of the change in net position of the Authority as of September 30, 2013 compared to the prior year.

	Total business-type activities	
	2012-13	2011-12
Total program revenues	$ 26,803,864	$ 25,408,679
Health and human service expenses:		
Mental health services expense	7,486,576	7,127,710
Developmental disability services expense	16,077,087	15,392,019
Other support services expense	1,773,143	1,630,667
Board administration expense	1,417,699	1,321,157
Total health and human service expenses	26,754,505	25,471,553
Change in net position	$ 49,359	($62,874)

Total revenues increased by 5.5% while total expenses increased by 5.0% in 2012-13 as compared to fiscal year 2011-12.

Enterprise Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget once in May 2013 to accommodate a decrease in funding of $204,664. The largest budget decrease was a reduction in Medicaid revenues from the Northern Affiliation, of which the Authority is a member.

During 2012-13, actual Medicaid expenditures of $22,988,677 were $917,048 less than allocated by our Northern Affiliation. These unused funds will be returned to the Northern Affiliation for future use as allowed by their contract with the Michigan Department of Community Health.

During 2012-13, actual General Fund expenditures of $2,060,173 were $125,860 more than allocated by the Michigan Department of Community Health. The Authority used $125,860 of its unrestricted fund balance to cover these excess expenditures.

The change in net position of $49,359 is comprised of the overspending of ($125,860) in State managed care General Funds on services provided to uninsured or underinsured individuals, $103,900 in additional local funds earned resulting from the closeout of the 2009-2010 General Fund contract with the State, the under spending of $21,361 of MIChild managed care funds on services provided to enrollees in this program, and $49,958 in savings from contracts and local funds.

As noted above, during FY2012-13 the service cost for enrollees in the MIChild benefit program was less than amounts paid to us for this benefit program. The Authority is allowed to utilize all excess funds in the following year on the needs of those we serve.

The Authority's net revenues were below planned levels by $811,998 during 2012-13. The majority of this low revenue was due to under-utilization of the Medicaid contract.

The Authority's net expenditures were below planned levels by $861,357 during 2012-13. The majority of this under-spending was in staff wages and benefits $598,752, information system costs $98,493, program supplies $49,312, program administration costs $47,992, maintenance of agency buildings and vehicles $28,774, and contractual services $20,425. There were no notable unanticipated expenditure items that increased in cost during the year.

Capital Asset and Debt Administration

As of September 30, 2013, the Authority had $4,741,969 invested in capital assets, including land, buildings, equipment, vehicles, and leasehold improvements. This is an increase of $153,497 or 3.3% as compared to 2011-12. The authority has no outstanding debt related to its capital assets.

The capital asset purchases during fiscal year 2012-13 were mainly for agency vehicles, office and computer equipment, kitchen improvements in 2 residential homes, and client equipment. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles. The Authority replaced twelve vehicles and purchased three additional vehicles during fiscal year 2012-13.

Economic Factors and Next Year's Budgets

The Authority's preliminary budget for fiscal year 2013-14 is $1,348,520 more than actual expenditures for the prior year and $487,163 more than budgeted for 2012-13. This is primarily due to projected ongoing costs to continue services at 2012-13 levels. Due to significant changes in federal and state health care initiatives resulting from the federal Patient Protection and Affordable Care Act, the state Healthy Michigan Plan and the reorganization of MDCH regions there remain a significant number of unknowns that will impact the Authority's budget.

The Authority anticipates a significant reduction in Medicaid funds for at least the next 3-4 years. This is due to the Michigan Department of Community Health's (MDCH) redistribution of appropriated funds throughout the state. This reallocation of funds is based upon numerous population, geographic, age, poverty, and morbidity factors.

All Medicaid funds flow through regional entities who in turn distribute the funds out to affiliates to serve their local population needs. The Northern Affiliation (NA) structure that the Authority has been affiliated with for over 10 years was dissolved on December 31, 2013. The NA had been comprised of 3 Community Mental Health Service Providers (CMHSP's): AuSable Valley, North Country, and Northeast (the Authority).

On January 1, 2014, the Northern Michigan Regional Entity (NMRE) was established. 5 CMHSP's make up this new affiliation: AuSable Valley, North Country, Northeast (the Authority), Northern Lakes and Centra Wellness. The new NMRE holds the Medicaid contract on behalf of all 5 CMHSP's. This new entity serves 21 counties of northern Lower Michigan. Its Board of Directors is made up of 3 Board members from each of the 5 CMHSP's. Thus, the Authority will have some say in how Medicaid funds are allocated to each CMHSP.

During the transition period, the NMRE has adopted a "do no harm" policy as a primary goal in determining how funds will be distributed to each CMHSP in its initial year. It has also been decided that each CMHSP's budget will be based upon the funds specified for each CMHSP's population going forward, allowing a period of no more than 3 years for each CMHSP to adjust it's spending to get in line with its populations funding. Because of this, it is expected that the Authority will see a reduction in Medicaid funding of approximately $1.9 million per year. In 2013-14, this will be partially offset by utilizing prior year Medicaid savings, redistribution of funds amongst the 5 CMHSP's on a need basis, and through the use of risk funds that were set aside by the previous affiliation to cover unexpected expenditures.

Additional Medicaid funds relating to the Healthy Michigan Plan implementation will be received when that program is up and running. However, the demand for services from these plan participants is not known. Thus, it is unknown if the additional funding will offset the costs of implementing this new entitlement program.

State General Funds are expected to decrease drastically in 2013-14. Legislation that has been put into law to date assumed that the uninsured or under insured population will qualify for the new federal or state sponsored health plans, thus funding was not adequately appropriated to cover the cost of other services that are not covered by the new entitlement programs. During 2012-13, the Authority reduced non-emergency services available to underinsured or uninsured individuals and still overspent its General Fund allocation ($125,860). Because of this, the Authority has continued its reduced benefit plan for the under and uninsured in 2013-14.

The Authority plans to continue to emphasize self-determined individualized arrangements for community supports, employment, and independent living services for persons with serious mental illnesses or developmental disabilities. All programs will be reviewed thoroughly to determine what reductions are necessary to bring expenditures in line with available funding.

The Authority is planning no new long-term debt borrowing in 2013-14.

Contacting the Authority's Management

This financial report is intended to provide all readers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Finance office.

DENNIS, GARTLAND & NIERGARTH

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Business Advisors

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Northeast Michigan
Community Mental Health Authority

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the ***Northeast Michigan Community Mental Health Authority*** (the" Authority") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 business-type activities, each major fund and the aggregate remaining fund information of Northeast Michigan Community Mental Health Authority and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i - iv be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

February 28, 2014

DENNIS, GARTLAND & NIERGARTH

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**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Northeast Michigan
Community Mental Health Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the ***Northeast Michigan Community Mental Health Authority***, (the "Authority"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's financial statements and have issued our report thereon dated February 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

February 28, 2014

Northeast Michigan Community Mental Health Authority

STATEMENT OF NET POSITION

PROPRIETARY FUND AND BUSINESS-TYPE ACTIVITIES

September 30, 2013

	Enterprise Fund/ Business-Type Activities
Assets	
Current assets	
Cash and cash equivalents	$ 3,092,139
Cash and cash equivalents leave reserve	889,312
Investments	1,000,017
Accounts receivable	510,208
Inventory	17,626
Prepaid items	693,268
Total current assets	6,202,570
Non-current assets	
Capital assets not being depreciated	90,000
Capital assets being depreciated, net	2,508,052
Total non-current assets	2,598,052
Total assets	8,800,622
Liabilities	
Current liabilities	
Accounts payable	2,032,335
Accrued payroll and payroll taxes	902,829
Deferred revenue	3,037
Current portion of long-term debt	74,080
Total current liabilities	3,012,281
Non-current liabilities	
Long-term debt, net of current portion	815,232
Total liabilities	3,827,513
Net position	
Net investment in capital assets	2,598,052
Unrestricted	2,375,057
Total net position	$ 4,973,109

The accompanying notes are an integral part of these financial statements.

Northeast Michigan Community Mental Health Authority
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND AND BUSINESS-TYPE ACTIVITIES
For the Year Ended September 30, 2013

	Enterprise Fund/ Business-Type Activities
Operating revenue	
State contracts	$ 25,532,647
Contributions from local units	379,660
Charges for services	800,198
Other revenue and reimbursements	81,249
Total operating revenue	26,793,754
Operating expenses - Health and Human Services	
Mental health services	
Outpatient clinic and case management	3,391,848
Residential	811,663
Inpatient	375,154
Prevention	790,124
Community support	1,061,529
Supported living and housing	617,752
Employment	297,097
Other	141,409
Developmental disability services	
Residential	7,363,587
Community support	1,873,391
Supported living and housing	3,637,803
Employment	1,293,882
Clinical support and case management	1,688,155
Other	156,737
Inpatient	63,532
Other support services	1,773,143
Board administration	1,417,699
Total operating expenses	26,754,505
Operating income	39,249
Non-operating revenue	
Interest	10,110
Change in net position	49,359
Net position, beginning of year	4,923,750
Net position, end of year	$ 4,973,109

The accompanying notes are an integral part of these financial statements.

Northeast Michigan Community Mental Health Authority

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2013

	Enterprise Fund
Cash flows from operating activities	
Cash received from providing services	$ 27,658,804
Cash payments to suppliers and affiliates	(9,497,162)
Cash payments for personnel services	(17,971,262)
Net cash provided by operating activities	190,380
Cash flows from capital and related financing activities	
Purchase of capital assets	(458,605)
Proceeds from sale of capital assets	23,027
Net cash used by capital and related financing activities	(435,578)
Cash flows from investing activities	
Proceeds from redemptions of investments	1,003,383
Purchase of investments	(1,000,017)
Interest received	10,110
Net cash provided by investing activities	13,476
Decrease in cash and cash equivalents	(231,722)
Cash and cash equivalents, beginning of the year	4,213,173
Cash and cash equivalents, end of the year	$ 3,981,451
Cash and cash equivalents per the statement of net assets	
Cash and cash equivalents	$ 3,092,139
Restricted cash and cash equivalents	889,312
	$ 3,981,451
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 39,249
Adjustments to reconcile operating income to net cash used by operating activities	
Depreciation	407,054
Gain on sale of capital assets	(2,159)
Changes in assets and liabilities	
Accounts receivable	91,939
Inventory	(794)
Prepaid items	(68,319)
Accounts payable	(285,642)
Accrued payroll and payroll taxes	10,809
Unearned revenue	(340)
Compensated absences	(1,417)
Net cash provided by operating activities	$ 190,380

Non-cash transactions

There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

Northeast Michigan Community Mental Health Authority

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

September 30, 2013

Assets		
Current assets		
Cash and cash equivalents	$	60,474
Liabilities		
Due to consumers	$	60,474

The accompanying notes are an integral part of these financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Northeast Michigan Community Mental Health Authority (the “Authority”), is a multi-county governmental authority serving Alcona, Alpena, Montmorency and Presque Isle Counties, located in northeastern Michigan. The Authority provides community services to consumers diagnosed with severe mental illnesses, developmental disabilities, and/or substance abuse conditions. Services provided by the Authority include inpatient treatment, residential services, case management, outpatient treatment, employment, and prevention services. The Authority operates under a 12-member Board of Directors.

Reporting Entity - These financial statements represent the financial condition and the results of operations of the Authority. The Authority is not a component of any other reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*. Based on this same criteria, management has not identified any potential component units requiring consideration for inclusion in the Authority’s financial statements.

Government-Wide and Fund Financial Statements - As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements. The Authority’s only major fund comprises the government-wide financial statements. Accordingly, this is presented in the Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Risk Reserve Internal Service Fund (a proprietary fund type) is used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Community Health (“MDCH”). Pursuant to these contractual provisions, the Risk Reserve Internal Service Fund has not been presented in these financial statements as there is no current year activity or net assets at September 30, 2013.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. There has been no inter-fund activity for the year ended September 30, 2013.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Enterprise Fund is the Authority's primary operating fund, and only major fund. It accounts for all financial resources of the Authority, except those accounted for in the Agency fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from MDCH and first and third party payers. Operating expenses include the cost of providing mental health and development disability services together with related support services and administration. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Agency fund accounts for assets held by the Authority as an agent for consumers.

Cash and Cash Equivalents - The Authority's cash consists of cash on hand and demand deposits. Cash and cash equivalents leave reserve represents amounts held in reserve accounts as authorized by resolution of the Authority's Board.

Investments - The Authority's investments consist of certificates of deposit with initial maturities greater than three months.

Receivables - Receivables consist primarily of amounts due from individuals and private or governmental insurance programs and grant reimbursements under the terms of contracts with other agencies, governments and organizations for services rendered. Receivables from first and third party payers are presented net of an allowance for uncollectible accounts as estimated by management. The allowance was $25,930 at September 30, 2013.

Inventory and Prepaid Items - Inventory is valued at cost, primarily determined on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include buildings, improvements, equipment and vehicles, are capitalized and reported in the financial statements. Capital assets are defined as assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Leasehold and building improvements	15
Equipment	5-7
Vehicles	5

Compensated Absences - Reflects the accrual of compensated absences adjusted to current salary costs. Permanent employees earn annual leave based upon full or part-time status proportionate to the time worked. Annual leave is 100% vested when earned and may be accrued to a total of 360 hours. Employees are paid 100% of annual accumulated leave when they terminate employment. A small number of employees have accrued leave hours exceeding 360 as allowed by a revision in the leave policy in April 2000. Upon termination, these employees are paid a percentage of their unused leave balances exceeding 360 hours, depending upon the number of hours accumulated and their employment classification.

MDCH Revenue

MDCH revenue is recognized as earned.

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Health ("MDCH"). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Alcona, Alpena, Montmorency and Presque Isle Counties. The Authority performs an annual settlement of General Funds with MDCH.

Medicaid Revenue

Northeast Michigan Community Mental Health Authority receives Medicaid revenue from the Northern CMH Affiliation Pre-Paid Inpatient Health Plan. The Northern Affiliation contracts directly with the MDCH to administer Medicaid revenues for Medicaid-qualified services provided to the residents of the covered counties.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Initial cash settlements under managed care contracts require substantial use of judgment and are subject to review by the Michigan Department of Community Health. Accordingly, the reported amounts of revenue, deferred revenue and due from/to the State could change.

NOTE B - DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	Business-type Activities	Fiduciary Fund	Total
Cash and cash equivalents	$ 3,092,139	$ 60,474	$ 3,152,613
Cash and cash equivalents leave reserve	889,312	-	889,312
Investments	1,000,017	-	1,000,017
	$ 4,981,468	$ 60,474	$ 5,041,942

Cash and investments are comprised of the following at year-end:

Petty cash	$ 2,975
Checking and savings accounts	4,038,950
Certificates of deposit (due within one year)	1,000,017
	$ 5,041,942

Deposit Risk

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, $3,535,579 of the Authority's bank balance of $5,096,054 was exposed to custodial credit risk because it exceeded FDIC Insurance limits.

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate changes.

Statutory Authority

The Authority is authorized by the State of Michigan to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.

NOTE B - DEPOSITS AND INVESTMENTS - Continued

- Mutual funds registered under the Investment Company Act of 1940 with the Authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets not being depreciated					
Land	$ 90,000	$ -	$ -	$ -	$ 90,000
Construction in progress	3,413		-	(3,413)	-
Total capital assets not being depreciated	93,413	-	-	(3,413)	90,000
Capital assets being depreciated					
Buildings	1,910,237	-	-	-	1,910,237
Building improvements	346,074	14,614	-	3,413	364,101
Leasehold improvements	284,272	13,855	-	-	298,127
Vehicles	1,218,863	351,736	(247,362)	-	1,323,237
Computer equipment	340,567	15,066	-	-	355,633
Client equipment	146,635	10,692	(57,746)	-	99,581
Other equipment	248,411	52,642	-	-	301,053
Total capital assets being depreciated	4,495,059	458,605	(305,108)	3,413	4,651,969
Accumulated depreciation					
Buildings	(634,972)	(62,875)	-	-	(697,847)
Building improvements	(148,377)	(21,813)	-	-	(170,190)
Leasehold improvements	(33,122)	(26,978)	-	-	(60,100)
Vehicles	(703,197)	(175,555)	226,494	-	(652,258)
Computer equipment	(265,204)	(28,337)	-	-	(293,541)
Client equipment	(60,967)	(58,745)	57,746	-	(61,966)
Other equipment	(175,264)	(32,751)	-		(208,015)
Total accumulated depreciation	(2,021,103)	(407,054)	284,240	-	(2,143,917)
Capital assets being depreciated, net	2,473,956	51,551	(20,868)	3,413	2,508,052
Capital assets, net	**$ 2,567,369**	**$ 51,551**	**$ (20,868)**	**$ -**	**$ 2,598,052**

Depreciation expense of $407,054 was charged entirely to the single Health and Human Services function.

NOTE D - LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Authority for the year ended September 30, 2013:

	Beginning Balance	Increases	(Decreases)	Ending Balance	Due within one year
Compensated absences	$ 890,729	$ -	$ (1,417)	$ 889,312	$ 74,080

NOTE E - LEASES

The Authority is party to numerous operating leases, for which aggregate rental expense was $278,730. These leases are for residential property and office facilities used to shelter and serve the needs of consumers.

The following is a schedule of future minimum lease payments required under the operating leases that have initial or remaining terms as of September 30, 2013:

September 30,	
2014	131,133
2015	93,052
2016	57,840
2017	39,840
2018	39,840
Thereafter	142,096
	$ 503,801

NOTE F - PENSION PLANS

Defined Contribution Plan

The Authority has adopted a defined contribution retirement plan covering all full-time employees. Employer contributions of up to 7.5% of gross wages are paid to the plan trustees on a biweekly basis at the same time that wages are paid. The covered payroll for the plan was $10,149,483. Total employer contributions for the year ended September 30, 2013 were $711,545.

NOTE F - PENSION PLANS - Continued

Alternative Social Security Plan

The authority contributes 5.7% of all non-union employees' salary to the plan. Employees are also required to contribute 6.2% of their salary to the plan. The contributions to the plan are made in lieu of Federal social security contributions. Under this plan, employees are 100% vested in their account at inception. Employees of the authority not eligible to participate in this plan are covered by the Federal Social Security System. The covered payroll for the plan was $5,739,965. Total employer contributions for the year ended September 30, 2013, were $327,178.

NOTE G - CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2013.

NOTE H - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employees injuries (workers' compensation), as well as medical and death benefits provided to employees. The Authority has purchased commercial insurance for excess claims for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years, and there was no reduction of coverage in the current year.

The Authority provides medical benefits to its employees through self-insurance. Blue Cross Blue Shield is the third party administrator. The Authority has stop loss coverage for any claims exceeding $55,000 per member.

The Authority has a prepaid item for claims incurred but not reported at September 30, 2013. GASB 10 requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The changes in the claims in the year ended September 30, 2013 is as follows:

	Beginning of Year Prepaid	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Prepaid
2013	$ 238,666	$ (2,315,655)	$ 2,362,298	$ 285,709