

Northeast Michigan Community Mental Health Authority

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

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

In 2007-08, 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 assets of the Authority as of September 30, 2008 compared to the prior year.

	Enterprise Activities	
	2007-08	2006-07
Current assets	\$ 5,645,840	\$ 5,809,188
Non-current assets	2,395,241	2,462,240
Total assets	<u>8,041,081</u>	<u>8,271,428</u>
Long-term debt outstanding	1,337,865	1,560,404
Other liabilities	1,679,647	1,639,983
Total liabilities	<u>3,017,512</u>	<u>3,200,387</u>
Net Assets		
Invested in capital assets, net of debt	1,768,342	1,612,803
Restricted Internal Service Funds	460,929	658,455
Restricted Debt Service	626,899	849,436
Unrestricted	<u>2,167,399</u>	<u>1,950,347</u>
Total net assets	<u>\$ 5,023,569</u>	<u>\$ 5,071,041</u>

The current level of unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, is \$2,167,399. This represents about 9.8% of current year expenditures, an increase of 0.4% as compared to 2006-07. The Authority's total net assets decreased 0.9% from a year ago.

Northeast Michigan Community Mental Health Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 replacement of capital assets and state inpatient facility usage risk. The Authority's total Restricted Internal Service Funds decreased \$197,526 or 30.0% from a year ago.

The Authority also has restricted a portion of its cash balances to fund 100% of its long-term debt obligations collateralized by facilities, vehicles, and equipment. The Authority's total Restricted Long Term Debt fund decreased \$222,537 or 26.2% from a year ago.

The table below shows a comparison of the change in net assets of the Authority as of September 30, 2008 compared to the prior year.

	Enterprise Activities	
	2007-08	2006-07
Total program revenues	<u>\$ 21,973,604</u>	<u>\$ 21,335,977</u>
Health and human service expenses:		
Mental health services expense	\$ 5,518,803	\$ 4,982,133
Developmental disability services expense	13,705,189	12,323,826
Other support services expense	1,736,396	2,161,687
Board administration expense	<u>1,060,688</u>	<u>1,279,504</u>
Total health and human service expenses	<u>22,021,076</u>	<u>20,747,150</u>
Change in net assets	<u>(\$ 47,472)</u>	<u>\$ 588,827</u>

Total revenues increased by 3.0% while total expense increased by 6.2% in 2007-08.

Enterprise Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget twice to take into account changes in funding amounts and consumer needs that changed during the year.

During 2007-08, actual Medicaid expenditures were \$42,680 less than allocated by our Northern Affiliation. The Authority is required by contract to return these unused funds to the affiliation. The Authority's total Medicaid expenditures included \$445,744 carried forward from the affiliation's 2006-07 contract. These carried forward funds were used to fund residential costs for mental health consumers moved out of state inpatient facilities in 2005-06.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2007-08, actual General Fund expenditures were \$24,969 less than allocated by the Michigan Department of Community Health. 100% of these funds will be retained for use in 2008-09.

The Authority's net expenditures were below planned levels by \$394,260 during 2007-08. The majority of this under-spending was in salaries, contracted local inpatient services, and asset purchases.

Capital Asset and Debt Administration

During 2007-08, the Authority removed \$1,077,079 of fully depreciated assets from its financial statements. These were assets having an original cost of less than \$5,000 per asset that were expensed in the year of purchase. Although all assets are still inventoried and monitored by the Authority, only items in excess of \$5,000 will be included as Capital Assets. For comparison purposes, Capital Assets at the end of 2006-07 have been decreased to \$3,632,714 to reflect the removal of items costing less than \$5,000.

As of September 30, 2008, the Authority had \$3,789,379 invested in capital assets, including land, buildings, equipment, furniture, vehicles, and leasehold improvements. This is an increase of \$156,665 or 4.3% as compared to 2006-07. The total debt related to fixed assets was \$626,899. This is a decrease of 26.2% as compared to 2006-07.

The most significant capital asset purchases during fiscal year 2007-08 were for vehicles, computer equipment and software, copy/fax machines, and roofing/shingle replacements at 1 of our owned homes. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles. The Authority replaced four and purchased one new vehicle during fiscal year 2007-08.

Economic Factors and Next Year's Budgets

The Authority budget for fiscal year 2008-09 will be approximately \$317,671 more than fiscal year 2007-08. This increase is due primarily to an increase in Medicaid funds from our Northern Affiliation and anticipated usage of reserved internal service fund monies. At the time this report was prepared, the Governor of the State of Michigan had issued a \$146,000,000 executive order that did not affect community mental health programs. However, the State still had a deficit of \$250,000,000 that it hoped would be addressed by a potential Federal stimulus package. Thus, the threat remains that community mental health programs may be subject to further 2008-09 reductions.

State allocated General Funds are expected to decrease slightly during 2008-09 due to decreasing statewide revenues. The Authority utilizes General Funds to serve an indigent population that does not qualify for Medicaid and other state funded insurance programs. During 2007-08, the Authority used \$126,559 from its state facility Risk service fund to fully fund services to consumers in state facilities.

The Authority plans to continue to emphasize community support, employment and independent living services for consumers with serious mental illnesses or developmental disabilities, possibly offset by a reduction in the number of group homes operated by the Authority.

The Authority is planning no new long-term debt borrowing in 2008-09.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the
Northeast Michigan Community Mental
Health Authority

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, 2008, which collectively comprise the Authority's financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund and the aggregate remaining fund information of Northeast Michigan Community Mental Health Authority as of September 30, 2008, and the respective changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2009 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

To the Board of Directors of the
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The management's discussion and analysis on pages i - iv is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Dennis, Gartland & Niergarth

January 26, 2009

**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 of the
Northeast Michigan Community Mental
Health Authority

We have audited the financial statements of the business-type activities, the major fund and the aggregate remaining fund information of *Northeast Michigan Community Mental Health Authority*, (the "Authority"), as of and for the year ended September 30, 2008, which collectively comprise the Authority's financial statements and have issued our report thereon dated January 26, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

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

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

To the Board of Directors of the
Northeast Michigan Community Mental
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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*.

This report is intended solely for the information and use of the Authority, management, the Board of Directors, others with the organization, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

January 26, 2009

Northeast Michigan Community Mental Health Authority

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 September 30, 2008

	Enterprise Fund	Risk Reserve Internal Service Fund	Total Business- type Activities
Assets			
Current assets			
Cash and cash equivalents	\$ 3,382,906	\$ -	\$ 3,382,906
Restricted cash and cash equivalents	1,037,542	267,718	1,305,260
Accounts receivable	584,702	-	584,702
Inventory	18,521	-	18,521
Prepaid items	354,451	-	354,451
Total current assets	5,378,122	267,718	5,645,840
Non-current assets			
Capital assets not being depreciated	90,000	-	90,000
Capital assets being depreciated, net	2,305,241	-	2,305,241
Total non-current assets	2,395,241	-	2,395,241
Total assets	7,773,363	267,718	8,041,081
Liabilities			
Current liabilities			
Accounts payable	1,021,198	-	1,021,198
Accrued payroll and payroll taxes	613,501	-	613,501
Unearned revenue	30,403	-	30,403
Current portion of long-term debt	258,873	-	258,873
Total current liabilities	1,923,975	-	1,923,975
Non-current liabilities			
Long-term debt, net of current portion	1,093,537	-	1,093,537
Total liabilities	3,017,512	-	3,017,512
Net assets			
Invested in capital assets, net of related debt	1,768,342	-	1,768,342
Restricted for			
Mental Health Code reserves	193,211	267,718	460,929
Other purposes	626,899	-	626,899
Unrestricted	2,167,399	-	2,167,399
Total net assets	\$ 4,755,851	\$ 267,718	\$ 5,023,569

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 ASSETS
 PROPRIETARY FUND
 For the Year Ended September 30, 2008

	<u>Enterprise Fund</u>	<u>Risk Reserve Internal Service Fund</u>	<u>Eliminations</u>	<u>Total Business- type Activities</u>
Operating revenue				
State Contracts	\$ 20,638,732	\$ -	\$ -	\$ 20,638,732
Contributions from local units	212,869	-	-	212,869
Charges for services	861,986	-	-	861,986
Other revenues and reimbursements	108,531	-	-	108,531
Total operating revenue	<u>21,822,118</u>	<u>-</u>	<u>-</u>	<u>21,822,118</u>
Operating expenses				
Mental health services				
Outpatient clinic and case management	2,437,512	-	-	2,437,512
Residential	1,094,753	-	-	1,094,753
Inpatient	249,434	-	-	249,434
Prevention	564,155	-	-	564,155
Community support	773,390	-	-	773,390
Supported living and housing	145,687	-	-	145,687
Employment	24,661	-	-	24,661
Other	229,211	-	-	229,211
Developmental disability services				
Residential	7,809,646	-	-	7,809,646
Community support	2,163,143	-	-	2,163,143
Supported living and housing	1,661,260	-	-	1,661,260
Employment	947,412	-	-	947,412
Clinical support and case management	970,224	-	-	970,224
Other	79,591	-	-	79,591
Inpatient	73,913	-	-	73,913
Other support services	1,698,725	-	-	1,698,725
Board administration	1,060,688	-	-	1,060,688
Total operating expenses	<u>21,983,405</u>	<u>-</u>	<u>-</u>	<u>21,983,405</u>
Operating loss	<u>(161,287)</u>	<u>-</u>	<u>-</u>	<u>(161,287)</u>
Non-operating revenue (expenses)				
Interest revenue	138,968	12,518	-	151,486
Interest expense	(37,127)	-	-	(37,127)
Loss on disposal of capital assets	(544)	-	-	(544)
Total non-operating revenue	<u>101,297</u>	<u>12,518</u>	<u>-</u>	<u>113,815</u>
Net income (loss) before transfers	<u>(59,990)</u>	<u>12,518</u>	<u>-</u>	<u>(47,472)</u>
Transfers in	126,559	-	(126,559)	-
Transfers out	<u>-</u>	<u>(126,559)</u>	<u>126,559</u>	<u>-</u>
Change in net assets	66,569	(114,041)	-	(47,472)
Net assets, beginning of the year	<u>4,689,282</u>	<u>381,759</u>	<u>-</u>	<u>5,071,041</u>
Net assets, end of the year	<u>\$ 4,755,851</u>	<u>\$ 267,718</u>	<u>\$ -</u>	<u>\$ 5,023,569</u>

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, 2008

	Enterprise Fund	Risk Reserve Internal Service Fund
Cash flows from operating activities		
Cash received from providing services	\$ 21,542,011	\$ -
Cash payments to suppliers and affiliates	(8,842,119)	-
Cash payments for personnel services	(12,771,895)	-
Net cash used by operating activities	(72,003)	-
Cash flows from noncapital financing activities		
Transfers in	126,559	-
Transfers out	-	(126,559)
Net cash (used) provided by noncapital financing activities	126,559	(126,559)
Cash flows from capital and related financing activities		
Purchase of capital assets	(218,969)	-
Principal payments	(222,538)	-
Interest payments	(37,127)	-
Net cash used by capital and related financing activities	(478,634)	-
Cash flows from investing activities		
Interest received	138,968	12,518
Decrease in cash and cash equivalents	(285,110)	(114,041)
Cash and cash equivalents, beginning of the year	4,705,558	381,759
Cash and cash equivalents, end of the year	\$ 4,420,448	\$ 267,718
Reconciliation of operating income to net cash used by operating activities		
Operating loss	\$ (161,287)	\$ -
Adjustments to reconcile operating loss to		
Net cash provided by operating activities		
Depreciation	285,424	-
Changes in assets and liabilities:		
Accounts receivable	(280,108)	-
Inventory	(2,222)	-
Prepaid items	46,526	-
Accounts payable	(25,490)	-
Accrued payroll and payroll taxes	100,949	-
Unearned revenue	(35,795)	-
Net cash used by operating activities	\$ (72,003)	\$ -

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, 2008

Assets

Current assets

Cash and cash equivalents \$ 85,471

Liabilities

Due to consumers \$ 85,471

Northeast Michigan Community Mental Health Authority

NOTES TO 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*.

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 by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets – Proprietary Funds and the Statement of Activities and Proprietary Fund Revenues, Expenses and Changes in Net Assets. The Authority’s only major fund is reported in a separate column in the aforementioned financial statements.

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 to the general public 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 Authority’s risk management plan has been submitted to MDCH.

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.

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 government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

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 revenues of the internal service funds are comprised of charges to other funds for risk financing. Operating expenses include the cost of providing mental health and development disability services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents – The Authority's cash consists of cash on hand and demand deposits. Restricted cash and cash equivalents represent amounts held in reserve accounts as authorized by the State of Michigan Mental Health Code.

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 equal to approximately \$47,717 at September 30, 2008.

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. In addition, the Authority maintains accountability over all capital assets with an initial cost between \$200 and \$5,000. However, consistent with the provisions of OMB Circular A-87, such items are expensed when purchased, as management believes they are not material to the financial statements.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Buildings and leasehold 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.

NOTE B - CASH AND CASH EQUIVALENTS

Deposits

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

	<u>Business- type Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	\$3,382,906	\$85,471	\$3,468,377
Restricted cash and cash equivalents	<u>1,305,260</u>	<u>-</u>	<u>1,305,260</u>
	<u>\$4,688,166</u>	<u>\$85,471</u>	<u>\$4,773,637</u>

Cash and cash equivalents are comprised of the following at year-end;

Petty cash	\$ 2,950
Checking and savings accounts	3,465,427
Certificates of deposit (due within one year)	<u>1,305,260</u>
	<u>\$4,773,637</u>

NOTE B - CASH AND CASH EQUIVALENTS - Continued

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, \$4,538,666 of the Authority's bank balance of \$4,808,666 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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.
- 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.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 90,000	\$ -	\$ -	\$ 90,000
Capital assets being depreciated				
Buildings	1,859,535	-	-	1,859,535
Building improvements	324,078	14,693	77,089	261,682
Leasehold improvements	133,864	-	112,005	21,859
Vehicles	1,050,201	93,103	81,604	1,061,700
Computer equipment	647,697	25,549	453,256	219,990
Furniture	182,444	-	182,444	-
Client equipment	33,581	22,652	-	56,233
Other equipment	<u>388,393</u>	<u>62,972</u>	<u>232,985</u>	<u>218,380</u>
Total capital assets being depreciated	<u>4,619,793</u>	<u>218,969</u>	<u>1,139,383</u>	<u>3,699,379</u>
Accumulated depreciation				
Buildings	325,215	61,778	-	386,993
Building improvements	136,908	18,680	77,089	78,499
Leasehold improvements	117,758	1,460	112,005	7,213
Vehicles	572,984	165,479	81,060	657,403
Computer equipment	621,130	8,264	453,256	176,138
Furniture	182,444	-	182,444	-
Client equipment	19,499	4,000	-	23,499
Other equipment	<u>271,615</u>	<u>25,763</u>	<u>232,985</u>	<u>64,393</u>
Total accumulated depreciation	<u>2,247,553</u>	<u>285,424</u>	<u>1,138,839</u>	<u>1,394,138</u>
Capital assets being depreciated, net	<u>2,372,240</u>	<u>(66,455)</u>	<u>544</u>	<u>2,305,241</u>
Capital assets, net	<u>\$ 2,462,240</u>	<u>\$ (66,455)</u>	<u>\$ 544</u>	<u>\$2,395,241</u>

NOTES TO FINANCIAL STATEMENTS – Continued

NOTE D - LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Authority for the year ended September 30, 2008:

	<u>Balance 10/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2008</u>	<u>Due Within One Year</u>
Note payable - building, interest at 5.43%, due in December 2010	\$ 73,191	\$ -	\$ 21,208	\$ 51,983	\$ 22,417
Note payable - mortgage, interest at 4.66%, due in June 2012	534,124	-	102,657	431,467	107,922
Note payable - building, interest at 6.0%, due in June 2013	84,047	-	12,620	71,427	13,398
Notes payable - vehicles, interest at 5.2%, due in May and June, 2009	92,973	-	53,387	39,586	39,586
Notes payable - computer equipment, interest at 4.75%, due in August and September, 2009	<u>65,102</u>	<u>-</u>	<u>32,666</u>	<u>32,436</u>	<u>32,436</u>
Subtotal	<u>849,437</u>	<u>-</u>	<u>222,538</u>	<u>626,899</u>	<u>215,759</u>
Compensated absences	<u>710,967</u>	<u>57,658</u>	<u>43,114</u>	<u>725,511</u>	<u>43,114</u>
Total long-term debt	<u>\$1,560,404</u>	<u>\$57,658</u>	<u>\$265,652</u>	<u>\$1,352,410</u>	<u>\$258,873</u>

The annual requirements to maturity on long-term debt (excluding compensated absences) at September 30, 2008 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 215,759	\$ 25,616
2010	150,928	16,784
2011	139,467	9,517
2012	108,075	3,075
2013	<u>12,670</u>	<u>319</u>
	<u>\$ 626,899</u>	<u>\$ 55,311</u>

NOTES TO FINANCIAL STATEMENTS – Continued

NOTE E - LEASES

The Authority is party to numerous operating leases, for which aggregate rental expense was approximately \$259,130. 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, 2008:

<u>September 30,</u>	
2009	\$ 130,149
2010	131,939
2011	126,285
2012	72,226
2013	62,205
2014-2016	<u>123,688</u>
	<u>\$ 646,492</u>

NOTE F - PENSION PLANS

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 \$7,938,693. Total employer contributions for the year ended September 30, 2008, were \$562,123.

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.

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, 2008.

NOTES TO FINANCIAL STATEMENTS – Continued

NOTE H - RESTRICTED NET ASSETS

The Authority reports restricted net assets for certain reserve accounts established pursuant to the State of Michigan Mental Health Code. As of September 30, 2008, restricted net assets were comprised as follows:

	<u>State Facilities Risk Reserve</u>	<u>Asset Replacement</u>	<u>Compensated Absences</u>	<u>Self Insurance</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ 267,718	\$ 193,211	\$ 725,511	\$ 118,820	\$1,305,260
Less related payables	<u>-</u>	<u>-</u>	<u>725,511</u>	<u>118,820</u>	<u>844,331</u>
Restricted net assets	<u>\$ 267,718</u>	<u>\$ 193,211</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 460,929</u>

In addition, \$626,899 has been internally restricted by Board action as a reserve for long-term debt.