

**Northeast Michigan
Community Mental Health Authority**

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2009

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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.

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, 2009 compared to the prior year.

	Total business-type activities	
	2008-09	2007-08
Current assets	\$ 5,419,811	\$ 5,645,840
Non-current assets	2,212,540	2,395,241
Total assets	<u>7,632,351</u>	<u>8,041,081</u>
Long-term debt outstanding	1,150,475	1,352,410
Other liabilities	1,431,569	1,665,102
Total liabilities	<u>2,582,044</u>	<u>3,017,512</u>
Net Assets		
Invested in capital assets, net of debt	1,801,102	1,768,343
Restricted Internal Service Funds	184,339	460,929
Restricted Debt Service	411,437	626,898
Unrestricted	<u>2,653,429</u>	<u>2,167,399</u>
Total net assets	<u>\$ 5,050,307</u>	<u>\$ 5,023,569</u>

The current level of unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, is \$2,653,429. This represents about 11.7% of current year expenditures, an increase of 1.9% as compared to 2007-08. The Authority's total net assets increased 0.6% 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 \$276,590 or 60.0% 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 \$215,462 or 34.4% from a year ago.

The table below shows a comparison of the change in net assets of the Authority as of September 30, 2009 compared to the prior year.

	Total business-type activities	
	2008-09	2007-08
Total program revenues	<u>\$ 22,704,853</u>	<u>\$ 21,973,604</u>
Health and human service expenses		
Mental health services expense	5,588,546	5,518,803
Developmental disability services expense	14,094,272	13,705,189
Other support services expense	1,976,127	1,736,396
Board administration expense	<u>1,019,170</u>	<u>1,060,688</u>
Total health and human service expenses	<u>22,678,115</u>	<u>22,021,076</u>
Change in net assets	<u>\$ 26,738</u>	<u>(\$ 47,472)</u>

Total revenues increased by 3.4% while total expenses increased by 3.0% in 2008-09.

Enterprise Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget once to take into account changes in funding amounts and consumer needs. These changes included;

- 10 unpaid furlough days for all staff with the exception of those providing in home residential care to consumers,
- An increase of 4% to employee's share of paid health insurance,
- A reduction in the mileage reimbursement rate by \$0.05/mile,
- The relocation of many residential consumers from out of area settings to local settings, and
- A reduction in service levels to under insured and uninsured consumers.

During 2008-09, actual Medicaid expenditures of \$18,941,987 were \$196,987 more than allocated by our Northern Affiliation. The Northern Affiliation amended its budget during the year to provide additional funding for this overage.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2008-09, actual General Fund expenditures of \$2,082,415 were \$237,603 more than allocated by the Michigan Department of Community Health. The Authority used \$237,553 of its General Fund Risk reserves and \$50 of its fund balance to fund mandated service expenditures.

The Authority's net revenues were below planned levels by \$143,244 during 2008-09. The majority of this low revenue was due to under utilization of the Systems of Care grant, poor interest rates, and reduced fee for service revenues.

The Authority's net expenditures were below planned levels by \$340,085 during 2008-09. The majority of this under-spending was in contracted services, salaries, program supplies, and maintenance.

Capital Asset and Debt Administration

As of September 30, 2009, the Authority had \$3,821,431 invested in capital assets, including land, buildings, equipment, vehicles, and leasehold improvements. This is an increase of \$32,053 or 0.1% as compared to 2007-08. The total outstanding debt related to fixed assets is \$441,437. This is a decrease of \$215,462 or 34.4% as compared to 2007-08.

The only capital asset purchases during fiscal year 2008-09 were for passenger vehicles. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles. The Authority replaced six vehicles during fiscal year 2008-09.

Economic Factors and Next Year's Budgets

The Authority's currently approved budget for fiscal year 2009-10 will be approximately \$170,212 less than the final budget for the prior year. Although Medicaid funds from our Northern Affiliation are expected to be increased, less reserve funds will be available to support ongoing operations. The current status of the State of Michigan's budget shortfall also indicates that a reduction in State General Funds is highly probable during fiscal year 2009-10 and such reduction will most likely affect community mental health programs. The Authority utilizes State allocated General Funds to serve an indigent population that does not qualify for Medicaid and other State funded insurance programs. Reductions in State General Funds directly impact the number of services that can be delivered to an indigent population that is growing in number.

Although the Authority plans to continue to emphasize community support, employment and independent living services for consumers with serious mental illnesses or developmental disabilities, these services will likely be under the most pressure as financial resources dwindle.

The Authority is planning no new long-term debt borrowing in 2009-10.

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

Certified Public Accountants
Business Advisors

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Stephen D. Gallagher, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
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, 2009, 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, 2009, 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 February 2, 2010 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.

Member of



415 Munson Avenue, Post Office Box 947
Traverse City, Michigan 49685-0947
231.946.1722, FAX: 231.946.2762
www.dgncpa.com

To the Board of Directors
Northeast Michigan
Community Mental Health Authority
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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

February 2, 2010



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**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 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, 2009, which collectively comprise the Authority's financial statements and have issued our report thereon dated February 2, 2010. 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.

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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.

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 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

February 2, 2010

Northeast Michigan Community Mental Health Authority

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2009

	Enterprise Fund	Risk Reserve Internal Service Fund	Total Business- Type Activities
Assets			
Current assets			
Cash and cash equivalents	\$ 3,602,092	-	\$ 3,602,092
Restricted cash and cash equivalents	836,616	86,761	923,377
Accounts receivable	562,232	-	562,232
Inventory	13,715	-	13,715
Prepaid items	318,395	-	318,395
Total current assets	5,333,050	86,761	5,419,811
Non-current assets			
Capital assets not being depreciated	90,000	-	90,000
Capital assets being depreciated, net	2,122,540	-	2,122,540
Total non-current assets	2,212,540	-	2,212,540
Total assets	7,545,590	86,761	7,632,351
Liabilities			
Current liabilities			
Accounts payable	902,250	-	902,250
Accrued payroll and payroll taxes	524,340	-	524,340
Unearned revenue	4,979	-	4,979
Current portion of long-term debt	189,601	-	189,601
Total current liabilities	1,621,170	-	1,621,170
Non-current liabilities			
Long-term debt, net of current portion	960,874	-	960,874
Total liabilities	2,582,044	-	2,582,044
Net assets			
Invested in capital assets, net of related debt	1,801,102	-	1,801,102
Restricted for			
Mental Health Code reserves	97,578	86,761	184,339
Other purposes (long-term debt)	411,437	-	411,437
Unrestricted	2,653,429	-	2,653,429
Total net assets	\$ 4,963,546	\$ 86,761	\$ 5,050,307

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 FUNDS
For the Year Ended September 30, 2009

	<u>Enterprise Fund</u>	<u>Risk Reserve Internal Service Fund</u>	<u>Eliminations</u>	<u>Total Business-Type Activities</u>
Operating revenue				
State grants	\$ 21,479,025	\$ -	\$ -	\$ 21,479,025
Contributions from local units	220,927	-	-	220,927
Charges for services	917,260	-	-	917,260
Other revenue and reimbursements	55,553	-	-	55,553
Total operating revenue	<u>22,672,765</u>	<u>-</u>	<u>-</u>	<u>22,672,765</u>
Operating expenses				
Mental health services				
Outpatient clinic and case management	2,535,799	-	-	2,535,799
Residential	914,756	-	-	914,756
Inpatient	244,141	-	-	244,141
Prevention	522,424	-	-	522,424
Community support	873,266	-	-	873,266
Supported living and housing	282,475	-	-	282,475
Employment	29,631	-	-	29,631
Other	186,054	-	-	186,054
Developmental disability services				
Residential	8,171,675	-	-	8,171,675
Community support	1,919,939	-	-	1,919,939
Supported living and housing	1,878,366	-	-	1,878,366
Employment	952,763	-	-	952,763
Clinical support and case management	1,069,382	-	-	1,069,382
Other	57,530	-	-	57,530
Inpatient	44,617	-	-	44,617
Other support services	1,943,778	-	-	1,943,778
Board administration	1,019,170	-	-	1,019,170
Total operating expenses	<u>22,645,766</u>	<u>-</u>	<u>-</u>	<u>22,645,766</u>
Operating income	<u>26,999</u>	<u>-</u>	<u>-</u>	<u>26,999</u>
Non-operating revenue (expenses)				
Interest revenue	29,415	2,673	-	32,088
Interest expense	(25,678)	-	-	(25,678)
Loss on disposal of assets	(6,671)	-	-	(6,671)
Total non-operating revenue (expenses)	<u>(2,934)</u>	<u>2,673</u>	<u>-</u>	<u>(261)</u>
Net income before transfers	24,065	2,673	-	26,738
Transfers in	183,630	-	(183,630)	-
Transfers out	-	(183,630)	183,630	-
Change in net assets	207,695	(180,957)	-	26,738
Net assets, beginning of year	<u>4,755,851</u>	<u>267,718</u>	<u>-</u>	<u>5,023,569</u>
Net assets, end of year	<u>\$ 4,963,546</u>	<u>\$ 86,761</u>	<u>\$ -</u>	<u>\$ 5,050,307</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, 2009

	Enterprise Fund	Risk Reserve Internal Service Fund
Cash flows from operating activities		
Cash received from providing services	\$ 22,695,234	\$ -
Cash payments to suppliers and affiliates	(11,895,391)	-
Cash payments for personnel services	(10,663,281)	-
Net cash provided by operating activities	136,562	-
Cash flows from noncapital financing activities		
Transfers in	183,630	-
Transfers out	-	(183,630)
Net cash provided (used) by noncapital financing activities	183,630	(183,630)
Cash flows from capital and related financing activities		
Purchase of capital assets	(103,734)	-
Increase in compensated absences	13,527	-
Principal payments	(215,462)	-
Interest payments	(25,678)	-
Net cash used by capital and related financing activities	(331,347)	-
Cash flows from investing activities		
Interest received	29,415	2,673
Increase (decrease) in cash and cash equivalents	18,260	(180,957)
Cash and cash equivalents, beginning of the year	4,420,448	267,718
Cash and cash equivalents, end of the year	\$ 4,438,708	\$ 86,761
Reconciliation of operating income to net cash provided by operating activities		
Operating gain	\$ 26,999	\$ -
Adjustments to reconcile operating gain to		
Net cash provided by operating activities		
Depreciation	279,764	-
Changes in assets and liabilities		
Accounts receivable	22,469	-
Inventory	4,806	-
Prepaid items	36,056	-
Accounts payable	(118,948)	-
Accrued payroll and payroll taxes	(89,161)	-
Unearned revenue	(25,423)	-
Net cash provided by operating activities	\$ 136,562	\$ -

Non-cash transactions

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

Northeast Michigan Community Mental Health Authority
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
September 30, 2009

Assets

Current assets

Cash and cash equivalents

\$ 98,074

Liabilities

Due to consumers

\$ 98,074

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*. Based on this 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 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 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. The effect of interfund activity has been eliminated from the government-wide and Proprietary Fund financial statements.

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 approximately \$55,000 at September 30, 2009.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 of between \$200 and \$5,000. However, consistent with the provisions of OMB Circular A-87, such items are expenses when purchased, as management believes they are not material to the financial statements.

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.

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, unearned revenue and due from/to the State could change.

NOTE B - CASH AND CASH EQUIVALENTS

Deposits

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

	Business- type	Fiduciary	
	<u>Activities</u>	<u>Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,602,092	\$ 98,074	\$ 3,700,166
Restricted cash and cash equivalents	<u>923,377</u>	<u>-</u>	<u>923,377</u>
	<u>\$ 4,525,469</u>	<u>\$ 98,074</u>	<u>\$ 4,623,543</u>

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

Petty cash	\$ 2,900
Checking and savings accounts	3,702,007
Certificates of deposit (due within one year)	<u>918,636</u>
	<u>\$ 4,623,543</u>

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, \$4,059,320 of the authority's bank balance of \$4,657,394 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 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.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - CASH AND CASH EQUIVALENTS - Continued

- 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.

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 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	261,682	-	-	261,682
Leasehold improvements	21,859	-	-	21,859
Vehicles	1,061,700	103,734	65,681	1,099,753
Computer equipment	219,990	-	-	219,990
Client equipment	56,233	-	-	56,233
Other equipment	218,380	-	6,000	212,380
Total capital assets being depreciated	<u>3,699,379</u>	<u>103,734</u>	<u>71,681</u>	<u>3,731,432</u>
Accumulated depreciation				
Buildings	386,993	61,609	-	448,602
Building improvements	78,499	17,678	-	96,177
Leasehold improvements	7,213	1,456	-	8,669
Vehicles	657,403	151,188	59,010	749,581
Computer equipment	176,138	11,080	-	187,218
Client equipment	23,499	6,435	-	29,934
Other equipment	64,393	30,318	6,000	88,711
Total accumulated depreciation	<u>1,394,138</u>	<u>279,764</u>	<u>65,010</u>	<u>1,608,892</u>
Capital assets being depreciated, net	<u>2,305,241</u>	<u>(176,030)</u>	<u>6,671</u>	<u>2,122,540</u>
Capital assets, net	<u><u>\$ 2,395,241</u></u>	<u><u>\$(176,030)</u></u>	<u><u>\$ 6,671</u></u>	<u><u>\$2,212,540</u></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, 2009:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable - building, interest at 5.43%, due in December 2010	\$ 51,983	\$ -	\$ 22,400	\$ 29,583	\$ 23,643
Note payable - mortgage, interest at 4.66%, due in June 2012	431,467	-	107,642	323,825	113,047
Note payable - building, interest at 6.0%, due in June 2013	71,427	-	13,398	58,029	14,224
Notes payable - vehicles, interest at 5.2%, due in May and June 2009	39,586	-	39,586	-	-
Notes payable - computer equipment, interest at 4.75%, due in August and September 2009	<u>32,436</u>	<u>-</u>	<u>32,436</u>	<u>-</u>	<u>-</u>
Subtotal	<u>626,899</u>	<u>-</u>	<u>215,462</u>	<u>411,437</u>	<u>150,914</u>
Compensated absences	<u>725,511</u>	<u>52,213</u>	<u>38,686</u>	<u>739,038</u>	<u>38,687</u>
Total long-term debt	<u>\$ 1,352,410</u>	<u>\$ 52,213</u>	<u>\$ 254,148</u>	<u>\$ 1,150,475</u>	<u>\$ 189,601</u>

The annual requirements to maturity on long-term debt (excluding compensated absences) at September 30, 2009 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 150,914	\$ 16,797
2011	139,470	9,575
2012	108,383	3,086
2013	<u>12,670</u>	<u>319</u>
	<u>\$ 411,437</u>	<u>\$ 29,777</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - LEASES

The Authority is party to numerous operating leases, for which aggregate rental expense was approximately \$260,004. 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, 2009:

<u>September 30,</u>	
2010	\$ 132,989
2011	126,285
2012	72,226
2013	62,205
2014	64,501
2015-2016	<u>59,187</u>
	<u>\$ 517,393</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 \$8,144,727. Total employer contributions for the year ended September 30, 2009 were \$568,195.

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, 2009.

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, 2009, restricted net assets were comprised as follows:

	State Facilities <u>Risk Reserve</u>	Asset <u>Replacement</u>	Compensated <u>Absences</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ 86,761	\$ 97,578	\$ 739,038	\$ 923,377
Less related payables	<u>-</u>	<u>-</u>	<u>739,038</u>	<u>739,038</u>
Restricted net assets	<u>\$ 86,761</u>	<u>\$ 97,578</u>	<u>\$ -</u>	<u>\$ 184,339</u>

In addition, \$411,437 has been internally restricted by Board action as a reserve for long-term debt.

NOTE I - 2007-2008 AUDIT

Following the publication of the 2007-08 independent audit, the Michigan Department of Community Health notified the Authority of a correction necessary to meet contractual obligations. As a result of this, \$24,970 that had been reported as unearned revenue in the 2007-08 audit was reclassified as earned revenue. In addition, MDCH disallowed usage of \$54,273 from the Authority's Risk Reserve Internal Service Fund. The Authority transferred these funds back into its restricted cash balance and made the necessary corrections to the 2007-08 accounting records to coincide with MDCH reporting. These corrections have been included in the 2008-09 financial statements to correctly state ending balances.