

**Northeast Michigan  
Community Mental Health Authority**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2010

# CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	4
FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS.....	6
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS.....	7
STATEMENT OF CASH FLOWS.....	8
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND.....	9
NOTES TO FINANCIAL STATEMENTS.....	10

Northeast Michigan Community Mental Health Authority

**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, 2010 compared to the prior year. For comparative purposes, the Authority's 2008-09 Restricted Debt Service and Unrestricted Fund Balance have been restated to reflect the Board's reservation of funds to pay for staff compensated leave balances as unrestricted net assets.

	Total business-type activities	
	2009-10	2008-09
Current assets	\$ 7,035,079	\$ 5,419,811
Non-current assets	2,213,001	2,212,540
Total assets	9,248,080	7,632,351
Long-term debt outstanding	852,040	1,150,475
Other liabilities	3,438,633	1,431,569
Total liabilities	4,290,673	2,582,044
Net Assets		
Invested in capital assets, net of related debt	1,952,273	1,801,102
Restricted Internal Service Funds	95,798	184,339
Unrestricted	2,909,336	3,064,866
Total net assets	\$ 4,957,407	\$ 5,050,307

Approximately \$1,038,000 of the September 30, 2010 Unrestricted Net Assets of \$2.9 million will be used to pay future debt service. The remaining portion of unrestricted net assets, the part available to be used to finance day-to-day operations, is \$1,871,184. This represents about 8.4% of current year expenditures, a decrease of 2.3% as compared to 2008-09. The Authority's total net assets decreased 1.8% 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 State inpatient facility usage risk, asset replacement risk, and self insurance risk. The Authority's total Restricted Internal Service Funds decreased \$88,541 or 48.0% from a year ago.

The Authority has restricted a portion of its cash balance to fund 100% of its long-term debt obligations collateralized by facilities, vehicles and equipment.

The table below shows a comparison of the change in net assets of the Authority as of September 30, 2010 compared to the prior year.

	Total business-type activities	
	2009-10	2008-09
Total program revenues	<u>\$ 22,143,726</u>	<u>\$ 22,704,853</u>
Health and human service expenses		
Mental health services expense	5,562,461	5,588,546
Developmental disability services expense	14,003,210	14,094,272
Other support services expense	1,563,807	1,976,127
Board administration expense	<u>1,107,148</u>	<u>1,019,170</u>
Total health and human service expenses	<u>22,236,626</u>	<u>22,678,115</u>
Change in net assets	<u>(\$92,900)</u>	<u>\$ 26,738</u>

Total revenues decreased by 2.5% while total expenses decreased by 1.9% in 2009-10.

**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. The largest budget increase was approved in June 2010, 9 months into the Authority's fiscal year. This increase is the result of one time federally enhanced Medicaid revenues and favorable rate changes that benefited the Northern Affiliation, of which the Authority is a member.

During 2009-10, actual Medicaid expenditures of \$18,771,397 were \$1,324,622 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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

During 2009-10, actual General Fund expenditures of \$1,594,093 were \$277,251 less than allocated by the Michigan Department of Community Health. The Authority will carry forward \$93,567 of these unused funds for use in 2010-11. The remaining \$183,684 will be returned to the Michigan Department of Community Health as required by contract.

The change in net assets of (\$92,900) is entirely a local match shortfall issue. These local match funds are raised mainly through county appropriations that are set in amount, and interest earnings. With poor interest earning rates, local matching dollars have been more difficult to raise. Thus, the Authority will use its fund balance to offset the local match shortfall.

The Authority's net revenues were below planned levels by \$1,592,531 during 2009-10. The majority of this low revenue was due to under utilization of Medicaid and General Fund contracts.

The Authority's net expenditures were well below planned levels by \$1,499,630 during 2009-10. The majority of this under-spending was in staff wages and benefits and contracted services. Many staff positions were held open for a large portion of the fiscal year while we awaited notification from both our affiliation and the Michigan Department Community Health of our final funding amounts.

### **Capital Asset and Debt Administration**

As of September 30, 2010, the Authority had \$3,968,583 invested in capital assets, including land, buildings, equipment, vehicles, and leasehold improvements. This is an increase of \$147,151 or 3.9% as compared to 2008-09. The total outstanding debt related to fixed assets is \$260,728. This is a decrease of \$150,709 or 36.6% as compared to 2008-09.

The capital asset purchases during fiscal year 2009-10 were for passenger vehicles, computer equipment and consumer equipment. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles. The Authority replaced nine vehicles with new vehicles and purchased one used vehicle during fiscal year 2009-10.

### **Economic Factors and Next Year's Budgets**

The Authority's currently approved budget for fiscal year 2010-11 will be approximately \$113,927 less than the final budget for the prior year. Although Medicaid funds from our Northern Affiliation and State General Funds 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 2010-11 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.

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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

The Authority is planning no new long-term debt borrowing in 2010-11.

**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.



415 Munson Avenue, P.O. Box 947  
Traverse City, Michigan 49685-1947  
231.946.1722 ph, 231.946.2762 fax  
[www.dgncpa.com](http://www.dgncpa.com)

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

## 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, 2010, 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, 2010, 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 31, 2011 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](http://www.dgncpa.com)

To the Board of Directors  
Northeast Michigan  
Community Mental Health Authority  
Page 2

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

*Dennis, Gartland & Niergarth*

January 31, 2011



415 Munson Avenue, P.O. Box 947  
Traverse City, Michigan 49685-1947  
231.946.1722 ph, 231.946.2762 fax  
[www.dgncpa.com](http://www.dgncpa.com)

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

**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, 2010, which collectively comprise the Authority's financial statements and have issued our report thereon dated January 31, 2011. 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 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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.

Member of



415 Munson Avenue, Post Office Box 947  
Traverse City, Michigan 49685-0947  
231.946.1722, FAX: 231.946.2762  
[www.dgncpa.com](http://www.dgncpa.com)

***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*

January 31, 2011

**Northeast Michigan Community Mental Health Authority**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES**  
September 30, 2010

	<u>Enterprise Fund</u>	<u>Risk Reserve Internal Service Fund</u>	<u>Total Business- Type Activities</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 4,821,811	\$ -	\$ 4,821,811
Restricted cash and cash equivalents	1,038,152	95,798	1,133,950
Accounts receivable	470,426	-	470,426
Inventory	18,292	-	18,292
Prepaid items	590,600	-	590,600
Total current assets	<u>6,939,281</u>	<u>95,798</u>	<u>7,035,079</u>
Non-current assets			
Capital assets not being depreciated	90,000	-	90,000
Capital assets being depreciated, net	2,123,001	-	2,123,001
Total non-current assets	<u>2,213,001</u>	<u>-</u>	<u>2,213,001</u>
Total assets	<u>9,152,282</u>	<u>95,798</u>	<u>9,248,080</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	2,526,300	-	2,526,300
Accrued payroll and payroll taxes	630,099	-	630,099
Unearned revenue	96,122	-	96,122
Current portion of long-term debt	186,112	-	186,112
Total current liabilities	<u>3,438,633</u>	<u>-</u>	<u>3,438,633</u>
Non-current liabilities			
Long-term debt, net of current portion	852,040	-	852,040
Total liabilities	<u>4,290,673</u>	<u>-</u>	<u>4,290,673</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,952,273	-	1,952,273
Restricted for			
Mental Health Code reserves	-	95,798	95,798
Unrestricted	2,909,336	-	2,909,336
Total net assets	<u>\$ 4,861,609</u>	<u>\$ 95,798</u>	<u>\$ 4,957,407</u>

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 AND BUSINESS-TYPE ACTIVITIES**  
For the Year Ended September 30, 2010

	Enterprise Fund	Risk Reserve Internal Service Fund	Total Business- Type Activities
<b>Operating revenue</b>			
State contracts	\$ 21,018,679	\$ -	\$ 21,018,679
Contributions from local units	212,869	-	212,869
Charges for services	830,022	-	830,022
Other revenue and reimbursements	58,030	-	58,030
Total operating revenue	<u>22,119,600</u>	<u>-</u>	<u>22,119,600</u>
<b>Operating expenses</b>			
Mental health services			
Outpatient clinic and case management	2,586,410	-	2,586,410
Residential	858,396	-	858,396
Inpatient	222,508	-	222,508
Prevention	545,708	-	545,708
Community support	939,667	-	939,667
Supported living and housing	252,549	-	252,549
Employment	6,096	-	6,096
Other	151,127	-	151,127
Developmental disability services			
Residential	7,632,837	-	7,632,837
Community support	1,721,742	-	1,721,742
Supported living and housing	2,348,755	-	2,348,755
Employment	1,083,435	-	1,083,435
Clinical support and case management	1,131,046	-	1,131,046
Other	82,334	-	82,334
Inpatient	3,061	-	3,061
Other support services	1,546,843	-	1,546,843
Board administration	1,107,148	-	1,107,148
Total operating expenses	<u>22,219,662</u>	<u>-</u>	<u>22,219,662</u>
Operating income	<u>(100,062)</u>	<u>-</u>	<u>(100,062)</u>
<b>Non-operating revenue (expenses)</b>			
Interest revenue	23,392	734	24,126
Interest expense	(16,964)	-	(16,964)
Total non-operating revenue (expenses)	<u>6,428</u>	<u>734</u>	<u>7,162</u>
Income (loss) before transfers	(93,634)	734	(92,900)
Transfers in/out	(8,303)	8,303	-
Change in net assets	(101,937)	9,037	(92,900)
Net assets, beginning of year	4,963,546	86,761	5,050,307
Net assets, end of year	<u>\$ 4,861,609</u>	<u>\$ 95,798</u>	<u>\$ 4,957,407</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, 2010

	Enterprise Fund	Risk Reserve Internal Service Fund
<b>Cash flows from operating activities</b>		
Cash received from providing services	\$ 23,771,580	\$ -
Cash payments to suppliers and affiliates	(7,201,414)	-
Cash payments for personnel services	(14,721,084)	-
Net cash provided by operating activities	1,849,082	-
<b>Cash flows from noncapital financing activities</b>		
Transfers in	-	8,303
Transfers out	(8,303)	-
Net cash (used) provided by noncapital financing activities	(8,303)	8,303
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(275,243)	-
Principal payments	(150,709)	-
Interest payments	(16,964)	-
Net cash used by capital and related financing activities	(442,916)	-
<b>Cash flows from investing activities</b>		
Interest received	23,392	734
Increase in cash and cash equivalents	1,421,255	9,037
Cash and cash equivalents, beginning of the year	4,438,708	86,761
Cash and cash equivalents, end of the year	\$ 5,859,963	\$ 95,798
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating loss	\$ (100,062)	\$ -
Adjustments to reconcile operating gain to		
Net cash provided by operating activities		
Depreciation	274,782	-
Changes in assets and liabilities		
Accounts receivable	91,806	-
Inventory	(4,577)	-
Prepaid items	(272,204)	-
Accounts payable	1,624,049	-
Accrued payroll and payroll taxes	105,759	-
Unearned revenue	91,143	-
Compensated absences	38,386	-
Net cash provided by operating activities	\$ 1,849,082	\$ -

#### 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, 2010

**Assets**

Current assets

Cash and cash equivalents

\$ 83,754

**Liabilities**

Due to consumers

\$ 83,754

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

NOTES TO FINANCIAL STATEMENTS - Continued

**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 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 together with related support services and administration. 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 or by resolution of the Authority's Board.

**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 \$56,579 at September 30, 2010.

**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.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Leasehold and building improvements	15
Equipment	5-7
Vehicles	5

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE B - CASH AND CASH EQUIVALENTS**

**Deposits**

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	\$ 4,821,811	\$ 83,754	\$ 4,905,565
Restricted cash and cash equivalents	<u>1,133,950</u>	<u>-</u>	<u>1,133,950</u>
	<u>\$ 5,955,761</u>	<u>\$ 83,754</u>	<u>\$ 6,039,515</u>

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

Petty cash	\$ 2,775
Checking and savings accounts	5,940,942
Certificates of deposit (due within one year)	<u>95,798</u>
	<u>\$ 6,039,515</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, \$5,796,584 of the authority's bank balance of \$6,217,813 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.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE B - CASH AND CASH EQUIVALENTS - 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, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Capital assets not being depreciated</b>					
Land	\$ 90,000	\$ -	\$ -	\$ -	\$ 90,000
<b>Capital assets being depreciated</b>					
Buildings	1,859,535	-	-	-	1,859,535
Building improvements	261,682	-	-	-	261,682
Leasehold improvements	21,859	-	-	12,995	34,854
Vehicles	1,099,753	149,542	(128,092)	-	1,121,203
Computer equipment	219,990	97,768	-	-	317,758
Client equipment	56,233	27,933	-	-	84,166
Other equipment	212,380	-	-	(12,995)	199,385
Total capital assets being depreciated	3,731,432	275,243	(128,092)	-	3,878,583
<b>Accumulated depreciation</b>					
Buildings	(448,602)	(61,609)	-	-	(510,211)
Building improvements	(96,177)	(15,714)	-	-	(111,891)
Leasehold improvements	(8,669)	(3,059)	-	(2,008)	(13,736)
Vehicles	(749,581)	(143,863)	128,092	-	(765,352)
Computer equipment	(187,218)	(15,560)	-	-	(202,778)
Client equipment	(29,934)	(6,515)	-	-	(36,449)
Other equipment	(88,711)	(28,462)	-	2,008	(115,165)
Total accumulated depreciation	(1,608,892)	(274,782)	128,092	-	(1,755,582)
Capital assets being depreciated, net	2,122,540	461	-	-	2,123,001
<b>Capital assets, net</b>	<b>\$ 2,212,540</b>	<b>\$ 461</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,213,001</b>

Depreciation expense of \$274,782 was charged entirely to the single Health and Human Services function.

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, 2010:

	<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 5.34%, due in December 2010	\$ 29,583	\$ -	\$ (23,636)	\$ 5,947	\$ 5,947
Note payable - mortgage, interest at 4.66%, due in June 2012	323,825	-	(112,849)	210,976	118,418
Note payable - building, interest at 6.00%, due in June 2013	<u>58,029</u>	<u>-</u>	<u>(14,224)</u>	<u>43,805</u>	<u>15,102</u>
Subtotal	411,437	-	(150,709)	260,728	139,467
Compensated absences	<u>739,038</u>	<u>43,723</u>	<u>(5,337)</u>	<u>777,424</u>	<u>46,645</u>
Total	<u><u>\$1,150,475</u></u>	<u><u>\$ 43,723</u></u>	<u><u>\$ (156,046)</u></u>	<u><u>\$1,038,152</u></u>	<u><u>\$ 186,112</u></u>

The annual requirements to maturity on long-term debt (excluding compensated absences) at September 30, 2010 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 139,467	\$ 9,586
2012	108,591	3,093
2013	<u>12,670</u>	<u>319</u>
	<u><u>\$ 260,728</u></u>	<u><u>\$ 12,998</u></u>

**NOTE E - LEASES**

The Authority is party to numerous operating leases, for which aggregate rental expense was \$252,849. These leases are for residential property and office facilities used to shelter and serve the needs of consumers.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE E - LEASES** - Continued

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, 2010:

<u>September 30,</u>	
2011	\$ 126,285
2012	72,226
2013	62,205
2014	64,501
2015	40,395
2016	<u>18,792</u>
	<u>\$ 384,404</u>

**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 \$8,401,357. Total employer contributions for the year ended September 30, 2010 were \$581,899.

*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 \$4,631,201. Total employer contributions for the year ended September 30, 2010, were \$263,978.

**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, 2010.

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, 2010, restricted net assets were comprised as follows:

	<u>State Facilities Risk Reserve</u>	<u>Compensated Absences</u>	<u>Building Note Payable</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ 95,798	\$ 777,424	\$ 260,728	\$1,133,950
Less related payables	-	777,424	260,728	1,038,152
<b>Restricted net assets</b>	<b><u>\$ 95,798</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 95,798</u></b>