

**Northeast Michigan
Community Mental Health Authority**

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2011

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, 2011 compared to the prior year.

	Total business-type activities	
	2010-11	2009-10
Current assets	\$ 6,845,234	\$ 7,035,079
Non-current assets	2,292,171	2,213,001
Total assets	9,137,405	9,248,080
Long-term debt outstanding	740,807	852,040
Other liabilities	3,409,974	3,438,633
Total liabilities	4,150,781	4,290,673
Net Assets		
Invested in capital assets, net of related debt	2,292,171	1,952,273
Restricted Internal Service Funds	0	95,798
Unrestricted	2,694,453	2,909,336
Total net assets	\$ 4,986,624	\$ 4,957,407

Unrestricted Net Assets consists of \$788,093, an internally reserved amount to pay staff their earned leave pay, and \$1,906,360, an unreserved amount used to finance day-to-day operations. The \$1,906,360 used to finance day-to-day operations represents about 8.0% of current year expenditures, a decrease of 0.3% as compared to 2009-10. 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 self-insurance risk. No funds are reserved in this service fund. The internal service fund previously established to fund state inpatient facility usage risk was eliminated during the year due to changes in contractual language with the Michigan Department of Community Health. The Authority's total restricted Internal Service Funds decreased \$95,798 or 100% from a year ago.

The Authority has restricted a portion of its cash balance to fund 100% of its long-term debt obligations to pay for staff earned time off. During the current year, the Authority paid off 100% of its long-term debt that was collateralized by buildings. The Authority's total Restricted Long-Term Debt fund decreased \$250,059 or 24.1% from a year ago.

The table below shows a comparison of the change in net assets of the Authority as of September 30, 2011 compared to the prior year.

	Total business-type activities	
	2010-11	2009-10
Total program revenues	<u>\$ 23,678,825</u>	<u>\$ 22,143,726</u>
Health and human service expenses		
Mental health services expense	6,202,121	5,562,461
Developmental disability services expense	14,539,422	14,003,210
Other support services expense	1,671,385	1,563,807
Board administration expense	<u>1,236,680</u>	<u>1,107,148</u>
Total health and human service expenses	<u>23,649,608</u>	<u>22,236,626</u>
Change in net assets	<u>\$ 29,217</u>	<u>\$ (92,900)</u>

Total revenues increased by 6.9% while total expenses increased by 6.4% in 2010-11.

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. The largest budget increase was approved in June 2011, 9 months into the Authority's fiscal year. This increase is the result of federally enhanced Medicaid revenues and favorable rate changes that benefited the Northern Affiliation, of which the Authority is a member.

During 2010-11, actual Medicaid expenditures of \$19,885,613 were \$1,440,804 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.

Northeast Michigan Community Mental Health Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

During 2010-11, actual General Fund expenditures of \$1,999,930 were \$45,881 more than allocated by the Michigan Department of Community Health. The Authority used \$45,881 of its unrestricted fund balance to cover these excess expenditures.

The change in net assets of \$29,217 is due to the allowable carry forward of unused MICHild and Adult Benefit Waiver insurance funds that convert to local funds in the following year, FY2011-12. The Authority is required to utilize all or more of these insurance funds on consumer needs. During FY2010-11 consumer demand for services was less than amounts paid for this consumer benefit.

The Authority's net revenues were below planned levels by \$1,511,020 during 2010-11. The majority of this low revenue was due to under-utilization of its Medicaid contract.

The Authority's net expenditures were below planned levels by \$1,540,237 during 2010-11. The majority of this under-spending was in staff wages and benefits and contracted services.

Capital Asset and Debt Administration

As of September 30, 2011, the Authority had \$4,160,509 invested in capital assets, including land, buildings, equipment, vehicles, and leasehold improvements. This is an increase of \$191,926 or 4.8% as compared to 2009-10. The total outstanding debt related to fixed assets is \$0. This is a decrease of \$260,728 or 100.0% as compared to 2009-10.

The capital asset purchases during fiscal year 2010-11 were mainly 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 ten vehicles with new vehicles and purchased two used vehicles during fiscal year 2010-11.

Economic Factors and Next Year's Budgets

The Authority's anticipated budget for fiscal year 2011-12 will be approximately \$2,628,935 more than actual expenditures for the current year. This is primarily due to an increase in Medicaid funds from our Northern Affiliation.

State General Funds will be approximately \$195,000 less than the current year due to; statewide reductions in general funds available for community mental health services, continued reductions in state funding of administration expenditures, the lack of a general fund carry forward of unused funds from 2010-11, and the contractual elimination of the service fund for state facility risk. 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 continues to grow 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.

The Authority is planning no new long-term debt borrowing in 2011-12.

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.



415 Munson Avenue, P.O. Box 947
Traverse City, Michigan 49685-1947
231.946.1722 ph, 231.946.2762 fax
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, 2011, 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, 2011, 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 1, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

February 1, 2012



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Traverse City, Michigan 49685-1947
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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, 2011, which collectively comprise the Authority's financial statements and have issued our report thereon dated February 1, 2012. 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 deficiencies, 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 within the organization, State and 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 1, 2012

Northeast Michigan Community Mental Health Authority
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES
September 30, 2011

	<u>Enterprise Fund</u>	<u>Risk Reserve Internal Service Fund</u>	<u>Total Business- Type Activities</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 4,175,498	\$ -	\$ 4,175,498
Restricted cash and cash equivalents	788,093	-	788,093
Investments	1,000,000	-	1,000,000
Accounts receivable	479,815	-	479,815
Inventory	16,862	-	16,862
Prepaid items	384,966	-	384,966
	<u>6,845,234</u>	<u>-</u>	<u>6,845,234</u>
Total current assets			
Non-current assets			
Capital assets not being depreciated	90,000	-	90,000
Capital assets being depreciated, net	2,202,171	-	2,202,171
	<u>2,292,171</u>	<u>-</u>	<u>2,292,171</u>
Total non-current assets			
	<u>2,292,171</u>	<u>-</u>	<u>2,292,171</u>
Total assets	<u>9,137,405</u>	<u>-</u>	<u>9,137,405</u>
Liabilities			
Current liabilities			
Accounts payable	2,680,597	-	2,680,597
Accrued payroll and payroll taxes	680,794	-	680,794
Unearned revenue	1,297	-	1,297
Current portion of long-term debt	47,286	-	47,286
	<u>3,409,974</u>	<u>-</u>	<u>3,409,974</u>
Total current liabilities			
	<u>3,409,974</u>	<u>-</u>	<u>3,409,974</u>
Non-current liabilities			
Long-term debt, net of current portion	740,807	-	740,807
	<u>740,807</u>	<u>-</u>	<u>740,807</u>
Total liabilities	<u>4,150,781</u>	<u>-</u>	<u>4,150,781</u>
Net assets			
Invested in capital assets, net of related debt	2,292,171	-	2,292,171
Unrestricted	2,694,453	-	2,694,453
	<u>2,694,453</u>	<u>-</u>	<u>2,694,453</u>
Total net assets	<u>\$ 4,986,624</u>	<u>\$ -</u>	<u>\$ 4,986,624</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, 2011

	Enterprise Fund	Risk Reserve Internal Service Fund	Total Business- Type Activities
Operating revenue			
State contracts	\$ 22,431,574	\$ -	\$ 22,431,574
Contributions from local units	309,276	-	309,276
Charges for services	826,636	-	826,636
Other revenue and reimbursements	95,050	-	95,050
	<u>23,662,536</u>	<u>-</u>	<u>23,662,536</u>
Total operating revenue			
	23,662,536	-	23,662,536
Operating expenses - Health and Human Services			
Mental health services			
Outpatient clinic and case management	2,997,096	-	2,997,096
Residential	704,640	-	704,640
Inpatient	233,582	-	233,582
Prevention	635,927	-	635,927
Community support	1,069,287	-	1,069,287
Supported living and housing	282,665	-	282,665
Employment	155,956	-	155,956
Other	122,968	-	122,968
Developmental disability services			
Residential	7,414,406	-	7,414,406
Community support	1,830,272	-	1,830,272
Supported living and housing	2,875,264	-	2,875,264
Employment	1,123,686	-	1,123,686
Clinical support and case management	1,208,876	-	1,208,876
Other	84,146	-	84,146
Inpatient	2,772	-	2,772
Other support services	1,670,005	-	1,670,005
Board administration	1,236,680	-	1,236,680
	<u>23,648,228</u>	<u>-</u>	<u>23,648,228</u>
Total operating expenses			
	23,648,228	-	23,648,228
Operating income	<u>14,308</u>	<u>-</u>	<u>14,308</u>
Non-operating revenue (expenses)			
Interest revenue	16,079	210	16,289
Interest expense	(1,380)	-	(1,380)
	<u>14,699</u>	<u>210</u>	<u>14,909</u>
Total non-operating revenue (expenses)			
	14,699	210	14,909
Income before transfers	29,007	210	29,217
Transfers in/out	96,008	(96,008)	-
Change in net assets	125,015	(95,798)	29,217
Net assets, beginning of year	4,861,609	95,798	4,957,407
Net assets, end of year	<u>\$ 4,986,624</u>	<u>\$ -</u>	<u>\$ 4,986,624</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, 2011

	Enterprise Fund	Risk Reserve Internal Service Fund
Cash flows from operating activities		
Cash received from providing services	\$ 25,161,976	\$ -
Cash payments to suppliers and affiliates	(8,684,727)	-
Cash payments for personnel services	(15,846,447)	-
Net cash provided by operating activities	630,802	-
Cash flows from noncapital financing activities		
Transfers in	96,008	-
Transfers out	-	(96,008)
Net cash provided (used) by noncapital financing activities	96,008	(96,008)
Cash flows from capital and related financing activities		
Purchase of capital assets	(379,901)	-
Proceeds from sale of capital assets	2,748	-
Principal payments	(260,728)	-
Interest payments	(1,380)	-
Net cash used by capital and related financing activities	(639,261)	-
Cash flows from investing activities		
Purchase of investments	(1,000,000)	-
Interest received	16,079	210
Net cash used by investing activities	(983,921)	210
Increase (decrease) in cash and cash equivalents	(896,372)	(95,798)
Cash and cash equivalents, beginning of the year	5,859,963	95,798
Cash and cash equivalents, end of the year	\$ 4,963,591	\$ -
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 14,308	\$ -
Adjustments to reconcile operating income to Net cash provided by operating activities		
Depreciation	297,983	-
Changes in assets and liabilities		
Accounts receivable	(9,389)	-
Inventory	1,430	-
Prepaid items	205,633	-
Accounts payable	154,298	-
Accrued payroll and payroll taxes	50,695	-
Unearned revenue	(94,825)	-
Compensated absences	10,669	-
Net cash provided by operating activities	\$ 630,802	\$ -

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, 2011

Assets

Current assets

Cash and cash equivalents

\$ 75,765

Liabilities

Due to consumers

\$ 75,765

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.

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 resolution of the Authority's Board.

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

Receivables - Receivables consist primarily of amounts due from individuals and private or governmental insurance programs and grant reimbursements under the terms of contracts with other agencies, governments and organizations for services rendered. Receivables from first and third party payers are presented net of an allowance for uncollectible accounts as estimated by management. The allowance was \$19,596 at September 30, 2011.

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.

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
Leasehold and building improvements	15
Equipment	5-7
Vehicles	5

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

MDCH Revenue

MDCH revenue is recognized as earned.

General Fund Revenue

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

Medicaid Revenue

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

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - DEPOSITS AND INVESTMENTS

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

	Business- type Activities	Fiduciary Fund	Total
Cash and cash equivalents	\$ 4,175,498	\$ 75,765	\$ 4,251,263
Restricted cash and cash equivalents	788,093	-	788,093
Investments	1,000,000	-	1,000,000
	<u>\$ 5,963,591</u>	<u>\$ 75,765</u>	<u>\$ 6,039,356</u>

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

Petty cash	\$ 2,775
Checking and savings accounts	5,036,581
Certificates of deposit (due within one year)	<u>1,000,000</u>
	<u>\$ 6,039,356</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, \$4,360,608 of the authority's bank balance of \$6,216,478 was exposed to custodial credit risk.

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 - DEPOSITS AND INVESTMENTS - Continued

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

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets not being depreciated					
Land	\$ 90,000	\$ -	\$ -	\$ -	\$ 90,000
Capital assets being depreciated					
Buildings	1,859,535	50,702	-	-	1,910,237
Building improvements	261,682	45,423	-	-	307,105
Leasehold improvements	34,854	10,994	-	-	45,848
Vehicles	1,121,203	228,028	(187,975)	-	1,161,256
Computer equipment	317,758	22,809	-	-	340,567
Client equipment	84,166	21,945	-	-	106,111
Other equipment	199,385	-	-	-	199,385
Total capital assets being depreciated	<u>3,878,583</u>	<u>379,901</u>	<u>(187,975)</u>	<u>-</u>	<u>4,070,509</u>
Accumulated depreciation					
Buildings	(510,211)	(61,713)	-	-	(571,924)
Building improvements	(111,891)	(16,467)	-	-	(128,358)
Leasehold improvements	(13,736)	(2,941)	-	-	(16,677)
Vehicles	(765,352)	(149,445)	185,227	-	(729,570)
Computer equipment	(202,778)	(29,883)	-	-	(232,661)
Client equipment	(36,449)	(9,938)	-	-	(46,387)
Other equipment	(115,165)	(27,596)	-	-	(142,761)
Total accumulated depreciation	<u>(1,755,582)</u>	<u>(297,983)</u>	<u>185,227</u>	<u>-</u>	<u>(1,868,338)</u>
Capital assets being depreciated, net	<u>2,123,001</u>	<u>81,918</u>	<u>(2,748)</u>	<u>-</u>	<u>2,202,171</u>
Capital assets, net	<u>\$ 2,213,001</u>	<u>\$ 81,918</u>	<u>\$ (2,748)</u>	<u>\$ -</u>	<u>\$ 2,292,171</u>

Depreciation expense of \$297,983 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, 2011:

	Beginning		(Decreases	Ending	Due
	<u>Balance</u>	<u>Increases</u>	<u>)</u>	<u>Balance</u>	<u>within</u>
					<u>one year</u>
Note payable - building, interest at 5.34%, due in December 2010	\$ 5,947	\$ -	\$ (5,947)	\$ -	\$ -
Note payable - mortgage, interest at 4.66%, due in June 2012	210,976	-	(210,976)	-	-
Note payable - building, interest at 6.00%, due in June 2013	<u>43,805</u>	<u>-</u>	<u>(43,805)</u>	<u>-</u>	<u>-</u>
Subtotal	260,728	-	(260,728)	-	-
Compensated absences	<u>777,424</u>	<u>10,669</u>	<u>-</u>	<u>788,093</u>	<u>47,286</u>
Total	<u>\$1,038,152</u>	<u>\$ 10,669</u>	<u>\$ (260,728)</u>	<u>\$ 788,093</u>	<u>\$ 47,286</u>

NOTE E - LEASES

The Authority is party to numerous operating leases, for which aggregate rental expense was \$264,524. 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, 2011:

<u>September 30,</u>	
2012	\$ 104,006
2013	62,205
2014	64,501
2015	40,395
2016	<u>18,792</u>
	<u>\$ 289,899</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 \$9,008,416. Total employer contributions for the year ended September 30, 2011 were \$641,003.

Alternative Social Security Plan

The authority contributes 5.7% of all non-union employees' salary to the plan. Employees are also required to contribute 6.2% of their salary to the plan. The contributions to the plan are made in lieu of Federal social security contributions. Under this plan, employees are 100% vested in their account at inception. Employees of the authority not eligible to participate in this plan are covered by the Federal Social Security System. The covered payroll for the plan was \$5,104,767. Total employer contributions for the year ended September 30, 2011, were \$290,972.

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, 2011.

NOTE H - RISK RESERVE INTERNAL SERVICE FUND

The Risk Reserve Internal Service Fund was closed in the year ended September 30, 2011, in accordance with Michigan Department of Community Health requirements. Net assets of \$96,008 were transferred to the Enterprise Fund.