

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Central Michigan District Health Department	County Isabella
Fiscal Year End 9/30/2007	Opinion Date 3/6/2008	Date Audit Report Submitted to State 3/17/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

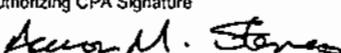
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

Check each applicable box below. (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**Central Michigan District Health Department  
Mt. Pleasant, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2007**

Central Michigan District Health Department

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Principals

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INDEPENDENT AUDITOR'S REPORT

Board of Public Health  
Central Michigan District Health Department  
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Central Michigan District Health Department (the "Department"), a component unit of Isabella County, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion 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 governmental activities and each major fund of the Central Michigan District Health Department as of September 30, 2007, and the respective changes in financial position 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 a report dated March 6, 2008, on our consideration of the Central Michigan District Health Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 6, 2008

Central Michigan District Health Department  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended September 30, 2007

This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Department's financial performance during the fiscal year ended September 30, 2007, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Department's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statements.

### Financial Highlights

- The assets of the Department exceeded its liabilities at September 30, 2007, by \$341,471 at the government-wide level. Unrestricted net assets of \$695,667 may be used to meet the Department's ongoing obligations.
- The Department's total net assets increased \$188,161 as a result of this year's operations.
- As of September 30, 2007, the Department's governmental fund reported an ending fund balance of \$1,119,637, an increase of \$329,198, including prior period adjustments of \$324,696.
- As of September 30, 2007, the unreserved and undesignated fund balance was \$217,636.

### Overview of the Financial Statements

The Central Michigan District Health Department's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements:** The government-wide financial statements provide information about the activities of the entire Department. They present an overall view of the Department's finances, reporting the assets and liabilities on fiscal year ending September 30, 2007.

The statement of net assets presents information on all of the Central Michigan District Health Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2006/07. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

All of the Central Michigan District Health Department's offices are supported by intergovernmental revenues, governmental grants, donations, fees and charges for services, interest, local, and contributions. The governmental activities of the Department are all considered health and sanitation programs. The Department does not operate any programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include only financial information related to the Central Michigan District Health Department.

**Fund Financial Statements:** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Central Michigan District Health Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department operates with one fund, which is considered a governmental fund.

Central Michigan District Health Department  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended September 30, 2007

**Governmental funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Central Michigan District Health Department adopts an annual appropriated budget for its Health Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic financial statements can be found on pages 1-6 of this report.

**Notes to the Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7-17 of this report.

**Other Information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 18. Other supplementary information concerning expenditures of federal awards can be found on pages 19-32 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Central Michigan District Health Department, assets exceeded liabilities by \$341,471. A comparative analysis of data with the previous fiscal year is as follows:

	<u>2007</u>	<u>2006</u>
Current assets	\$ 2,640,019	\$ 2,017,454
Capital assets	<u>999,560</u>	<u>1,049,236</u>
Total assets	3,636,579	3,066,690
Current liabilities	1,833,663	1,367,180
Noncurrent liabilities	<u>1,464,445</u>	<u>1,491,435</u>
Total liabilities	<u>3,298,108</u>	<u>2,858,615</u>
Net assets		
Invested in capital assets	( 354,196 )	( 288,672 )
Unrestricted	<u>695,667</u>	<u>496,747</u>
Total net assets	<u>\$ 341,471</u>	<u>\$ 208,075</u>

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) increased by \$198,920. This represents an increase of approximately 40 percent. Net assets invested in capital assets stands at a negative amount of \$354,196. The current level of unrestricted net assets for our governmental activities stands at \$695,667, or approximately 8 percent of annual expenses. This is within our desired range.

Central Michigan District Health Department  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended September 30, 2007

The following table shows the changes of net assets for the years ended September 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Program revenues		
Charges for services	\$ 2,185,849	\$ 1,122,824
Operating grants and contributions	5,529,864	5,718,787
General revenue		
County appropriations	1,202,004	1,166,145
Cigarette tax	63,527	-
Interest	14,467	10,735
Miscellaneous	<u>10,131</u>	<u>-</u>
Total revenues	9,005,842	8,018,491
Program Expenses	<u>8,817,681</u>	<u>8,048,867</u>
Change in net assets	<u>\$ 188,161</u>	<u>\$( 30,376 )</u>

For the year ended September 30, 2007, charges for services increased \$1,063,525 mainly due to increased activity in the MSS/ISS program. Also there were new vaccines offered and additional family planning services offered in this fiscal year.

Total expenses increased approximately 10% over last year, primarily related to normal economic cost increase factors as well as related to costs associated with the increased levels of grant funding.

#### Financial Analysis of the Government's Fund

As noted earlier, the Central Michigan District Health Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Fund:** The focus of the Central Michigan District Health Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Central Michigan District Health Department's financing requirements. In particular, unreserved-undesignated fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Central Michigan District Health Department's governmental fund reported an ending fund balance of \$1,119,637; an increase of \$329,198 (including prior period adjustments of \$324,696) in comparison with the prior year. Of this total, \$35,356 has been reserved for prepaid expenditures and trust activities. There has been \$588,141 designated for compensated absences; \$200,000 designated for building; \$52,267 designated for disability claims; \$19,763 designated for children's special health; and \$6,474 designated for BCCCP. The unreserved and undesignated fund balance at September 30, 2007 was \$217,636.

As a measure of the governmental fund's liquidity, it may be useful to compare unreserved (designated and undesignated) fund balance, total fund balance, and unreserved-undesignated fund balance to total fund expenditures. Unreserved fund balance (\$1,084,281) and total fund balance (\$1,119,637) represent approximately 12.3 percent and 12.7 percent, respectively, of total fund expenditures. Unreserved-undesignated fund balance represents approximately 2.5 percent of total expenditures.

Central Michigan District Health Department  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended September 30, 2007

**Governmental Fund Budgetary Highlights**

Over the course of the year, the Central Michigan District Health Department's Board of Health may amend the budget to take into account events that occur during the year. For the year ended September 30, 2007, the only budget amendment primarily increased and decreased intergovernmental revenue and expense line items by minor amounts to maintain consistency with actual activities for the fiscal year. In total, the agency's amended expenditure budget changed from \$8,559,141 to \$8,969,330.

**Capital Asset and Debt Administration**

**Capital Assets:** The Central Michigan District Health Department's investment in capital assets as of September 30, 2007, amounts to \$999,560 (net of accumulated depreciation).

**Long-term Obligations:** The Central Michigan District Health Department has a long-term obligation related to capital leases on buildings and compensated absences (e.g., unused sick/vacation and personal leave).

The total obligation for Roscommon County building and Isabella County building capital leases was \$1,353,756 at September 30, 2007.

The total accumulated compensated absences was \$588,141 at September 30, 2007.

**Economic Factors and Next Year's Budget and Rates**

For the fiscal year ending September 30, 2008, close monitoring of State budget actions will continue to be important related to further possible cuts in funding provided through State grant agreements and other State funding mechanisms such as Medicaid Cost-Based and Rate-Based Reimbursement supplements. Similarly it will be important to closely monitor environmental health permit applications activity and related fee revenues to determine if recent declines will continue. Because these funding sources represent such a substantial portion of the agency's operating budget, changes in the levels of funding have a significant impact on the types and levels of service that Central Michigan District Health Department is able to provide.

Because the services of the Central Michigan District Health Department are provided based on need and not the ability to pay, and the financial condition of the agency is generally sound, the budget for the fiscal year ending September 30, 2008 included only normal economic increases in fees charged for services to the general public related to the corresponding increased operating costs to provide them and related to the levels of county funds appropriated.

**Requests for Information**

This financial report is designed to provide a general overview of the Central Michigan District Health Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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Central Michigan District Health Department  
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## **BASIC FINANCIAL STATEMENTS**

Central Michigan District Health Department

STATEMENT OF NET ASSETS

September 30, 2007

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 421,553
Accounts receivable, net of allowance for uncollectible accounts	418,633
Due from other governmental units	
Federal/State	763,862
Local	722,044
Prepays	35,356
Inventories	<u>278,571</u>
Total current assets	2,640,019
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>999,560</u>
<b>TOTAL ASSETS</b>	<b>3,639,579</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	205,319
Accrued wages	120,806
Other accrued liabilities	33,848
Advances	134,078
Unearned revenue	849,390
Accrued interest payable	12,770
Current portion of compensated absences	299,952
Current portion of long-term obligations	<u>177,500</u>
Total current liabilities	1,833,663
Noncurrent liabilities	
Noncurrent portion of compensated absences	288,189
Noncurrent portion of long-term obligations	<u>1,176,256</u>
Total noncurrent liabilities	<u>1,464,445</u>
<b>TOTAL LIABILITIES</b>	<b>3,298,108</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(354,196)
Unrestricted	<u>695,667</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 341,471</u></b>

See accompanying notes to financial statements.

Central Michigan District Health Department

STATEMENT OF ACTIVITIES

Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Assets
				Governmental Activities
Governmental activities				
Personal health	\$ 6,379,928	\$ 1,392,679	\$ 4,131,031	\$ (856,218)
Environmental health	2,347,618	793,170	1,324,668	(229,780)
Administration	90,135	-	74,165	(15,970)
Total governmental activities	<u>\$ 8,817,681</u>	<u>\$ 2,185,849</u>	<u>\$ 5,529,864</u>	(1,101,968)
General revenues				
Interest				14,467
County appropriations				1,202,004
Cigarette tax				63,527
Miscellaneous				10,131
Total general revenues				<u>1,290,129</u>
Change in net assets				188,161
Restated net assets, beginning of the year				<u>153,310</u>
Net assets, end of the year				<u>\$ 341,471</u>

See accompanying notes to financial statements.

Central Michigan District Health Department

GOVERNMENTAL FUND BALANCE SHEET

September 30, 2007

<b>ASSETS</b>	
Cash	\$ 421,553
Accounts receivable, net of allowance for uncollectible accounts	418,633
Due from other governmental units	
Federal/State	763,862
Local	722,044
Prepays	35,356
Inventories	278,571
	<hr/>
TOTAL ASSETS	\$ 2,640,019
	<hr/>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 205,319
Accrued wages	120,806
Other accrued liabilities	33,848
Advances	134,078
Deferred revenue	1,026,331
	<hr/>
TOTAL LIABILITIES	1,520,382
<b>FUND BALANCE</b>	
Reserved for	
Prepays	35,356
Unreserved - designated for	
Compensated absences	588,141
Building	200,000
Disability claims	52,267
Children's special health	19,763
BCCCP	6,474
Unreserved - undesignated	217,636
	<hr/>
TOTAL FUND BALANCE	1,119,637
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,640,019
	<hr/>

See accompanying notes to financial statements.

Central Michigan District Health Department

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

September 30, 2007

**Total fund balance - governmental fund** **\$ 1,119,637**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,814,359	
Accumulated depreciation is	<u>(1,814,799)</u>	
		999,560

Certain accounts receivable are not susceptible to accrual in the governmental fund due to not having met the criteria to be considered available to finance current operations.

Deferred revenue		176,941
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Compensated absences	(588,141)	
Accrued interest payable	(12,770)	
Capital lease obligations	<u>(1,353,756)</u>	
		<u>(1,954,667)</u>

<b>Net assets of governmental activities</b>		<b><u>\$ 341,471</u></b>
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See accompanying notes to financial statements.

Central Michigan District Health Department

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND

Year Ended September 30, 2007

REVENUES

Intergovernmental	
Federal/State	\$ 4,640,338
Local	839,733
Charges for services	2,008,908
Contributions	49,793
Interest	14,467
Other	<u>10,131</u>
 TOTAL REVENUES	 7,563,370

EXPENDITURES

Current	
Salaries and wages	4,257,926
Fringe benefits	1,236,249
Supplies and materials	1,815,001
Contractual	288,723
Communications	79,454
Utilities	68,043
Travel and training	308,838
Insurance	77,349
Repairs and maintenance	86,373
Building and equipment lease and rentals	527,425
Printing and advertising	13,900
Postage	42,056
Other	<u>23,062</u>
 TOTAL EXPENDITURES	 <u>8,824,399</u>

EXCESS OF REVENUES (UNDER) EXPENDITURES (1,261,029)

OTHER FINANCING SOURCES

County appropriations	1,202,004
Cigarette tax	<u>63,527</u>
 TOTAL OTHER FINANCING SOURCES	 <u>1,265,531</u>

NET CHANGE IN FUND BALANCE 4,502

Fund balance, beginning of year	790,439
Prior period adjustments	<u>324,696</u>
Fund balance, end of year	<u>\$ 1,119,637</u>

See accompanying notes to financial statements.

Central Michigan District Health Department

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2007

**Net change in fund balance - governmental fund** \$ 4,502

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (148,846)

Capital lease payments are expenditures in governmental funds, but the payments reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Capital leases principal payment 168,752

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.

Increase in deferred revenue 176,941

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued compensated absences (7,655)

(Increase) in accrued interest payable (5,533)

(13,188)

**Change in net assets of governmental activities** \$ 188,161

See accompanying notes to financial statements.

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Central Michigan District Health Department (the "Department") is a Michigan municipal body and an agency of Arenac, Clare, Gladwin, Isabella, Osceola, and Roscommon Counties, created under Act 368, Public Acts of 1978 and was established to provide public health services to area residents. The District Health Board has representation and provides services to Arenac, Clare, Gladwin, Isabella, Osceola, and Roscommon Counties. Each County provides annual appropriations and passes through the statutory amounts of cigarette tax funding to subsidize operations. The current funding formula approved by the District Health Board requires Arenac, Clare, Gladwin, Isabella, Osceola and Roscommon Counties to provide approximately 10, 17, 14, 28, 13, and 18 percent, respectively. In addition, the treasury function for the District Health Department rests with the Isabella County Treasurer. For this reason, the District Health Department is considered a component unit of Isabella County for financial reporting purposes.

The District Health Department's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Department are discussed below.

The primary revenues of the Central Michigan District Health Department are charges for services, Federal and State grants and County appropriations.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Central Michigan District Health Department. The Department is considered a "joint venture" of Arenac, Clare, Gladwin, Isabella, Osceola, and Roscommon Counties.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Department as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Department and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and all County appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Department.

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The Department uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Department's individual major fund.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the Department is:

- a. Special Revenue Fund - This fund is used to account for all financial resources of the Department, which are restricted to expenditures for specified health related purposes.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Department before it has legal claim to them, such as when grant monies are received and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Department reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

The annual budget of the Department is prepared by Department management and approved by the Board at the total expenditure level. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Cash

Cash consists of the Department's payroll, accounts payable, and other checking accounts, imprest cash, and cash on deposit with the Isabella County Treasurer.

6. Receivables and Deferred Revenue

Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations. The amounts reflected in the financial statements are net of an applicable allowance for doubtful collections, which is based on historical collection patterns.

The Department has recognized the revenue related to charges for services at the time the services are performed and billed to the extent such amounts are estimated to be received. Contractual adjustments by third-party payers are treated as a reduction to revenues.

The Department has recorded unearned and deferred revenue at the government-wide and the fund level, respectively, equaling the amount of vaccine inventory received from the State of Michigan that is on hand at year-end.

7. Inventories

Inventories are stated at cost on a first in/first out basis. Inventory consists of vaccines received from the State of Michigan. They are recorded as expenditures at the time individual inventory items are used.

8. Capital Assets

Capital assets include buildings, furniture, equipment, and vehicles are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are not recorded in the governmental fund. Instead, capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	15 - 20 years
Furniture and equipment	5 - 10 years
Vehicles	10 years

The Department has no assets that would be classified as infrastructure assets.

9. Long-Term Obligations

Long-term debt is recognized as a liability in the government-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

10. Compensated Absences

The Department employees are granted vacation, personal, compensation, and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation, personal, compensation, and sick time. This amount has been recorded as a current and noncurrent liability in the government-wide financial statements.

11. Comparative Data

Comparative data for the prior year have not been presented in the accompanying financial statements since its inclusion would make the statements unduly complex and difficult to read.

**NOTE B: CASH**

In accordance with Michigan Compiled Laws, the Department is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits, and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE B: CASH - CONTINUED**

Deposits

The Department's bank deposits at September 30, 2007, are composed of the following:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 73,673	\$ 139,526

Bank deposits of the Department are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Department. As of September 30, 2007, the Department's accounts were insured by the FDIC and NCUA for \$125,920 and the amount of \$13,606 was uninsured and uncollateralized.

The cash caption on the balance sheet includes \$6,130 in imprest cash and \$341,750 in cash that is on deposit with the Isabella County Treasurer. The cash on deposit with the Isabella County Treasurer is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these amounts cannot be determined.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2007, the Department does not have any investments that would be subject to rating.

Interest rate risk

The Department will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio in a manner to attain a market rate of return throughout the budgetary and economic cycles while preserving and protecting capital.

Concentration of credit risk

The Department will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Department's investment in a single issuer, by diversifying the investment portfolio to prevent over concentration of assets in a specific maturity, individual financial institution, or specific class of securities.

**NOTE C: ACCOUNTS RECEIVABLE**

The following is an analysis of accounts receivable as of September 30, 2007:

Accounts receivable, gross	\$ 430,125
Less: allowance for doubtful accounts	( 11,492 )
Accounts receivable, net	\$ 418,633

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE D: CAPITAL ASSETS**

The following provides a summary of the changes in capital assets for the year ended September 30, 2007:

	Restated Balance <u>Oct. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2007</u>
Governmental Activities:				
Buildings under capital leases	\$ 2,621,266	\$ -	\$ -	\$ 2,621,266
Furniture and equipment	187,383	-	-	187,383
Buses and vehicles	<u>5,710</u>	<u>-</u>	<u>-</u>	<u>5,710</u>
Total at historical cost	2,814,359	-0-	-0-	2,814,359
Less accumulated depreciation for:				
Buildings under capital leases	(1,476,460)	( 147,646)	-	(1,624,106)
Furniture and equipment	( 183,783)	( 1,200)	-	( 184,983)
Buses and vehicles	<u>( 5,710)</u>	<u>-</u>	<u>-</u>	<u>( 5,710)</u>
Total accumulated depreciation	<u>(1,665,953)</u>	<u>( 148,846)</u>	<u>-0-</u>	<u>(1,814,799)</u>
Capital assets, net	<u>\$ 1,148,406</u>	<u>\$ ( 148,846)</u>	<u>\$ -0-</u>	<u>\$ 999,560</u>

Depreciation expense has been allocated to governmental functions as follows: Personal health \$44,654, Environmental health \$29,769, and Administration \$74,423.

**NOTE E: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Health Department for the year ended September 30, 2007:

	Restated Balance <u>Oct. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2007</u>	Amounts due within <u>one year</u>
Capital leases on buildings	\$ 1,522,508	\$ -	\$( 168,752)	\$ 1,353,756	\$ 177,500
Accumulated compensated absences	<u>580,486</u>	<u>416,234</u>	<u>( 408,579)</u>	<u>588,141</u>	<u>299,952</u>
	<u>\$ 2,102,994</u>	<u>\$ 416,234</u>	<u>\$( 577,331)</u>	<u>\$ 1,941,897</u>	<u>\$ 477,452</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Capital Leases

The Central Michigan District Health Department leases buildings under capital leases. The economic substance of the leases is that the Department is financing the acquisition of the assets through the leases. These capital leases have been recorded at the present value of the future minimum lease payments as of the date of their inception. These leases qualify as capital leases for accounting purposes because substantially all of the benefits and risks inherent in the ownership of the property rests with the Department. The following are additional details regarding the lease.

\$995,000 Roscommon County building capital lease payable dated December 1, 1996, due in monthly installments of \$6,269 including interest payment through September 1, 2011 with interest of 6.00 percent.	\$ 420,000
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Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE E: LONG-TERM DEBT - CONTINUED**

Capital Leases - continued

\$2,135,000 Isabella County building capital lease payable dated May 1, 1996, due in annual installments ranging from \$110,000 to \$170,000 through May 1, 2016 with interest ranging from 5.300 to 5.625 percent, payable semi-annually.

\$ 933,756

\$ 1,353,756

Commitments under these lease agreements provide for the minimum annual payments as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 177,500	\$ 84,642
2009	186,252	72,740
2010	203,752	60,427
2011	212,500	48,907
2012	101,252	36,654
2013-2016	<u>472,500</u>	<u>77,109</u>
	<u>\$ 1,353,756</u>	<u>\$ 380,479</u>

Accumulated Compensated Absences

Employees of the Central Michigan District Health Department are granted vacation, sick, and personal leave in varying amounts based on length of service. Upon termination of employment, employees are paid accumulated vacation and personal leave at full current rate of pay, and accumulated sick leave at a rate of 50% of hours accumulated up to a maximum of 840 hours (420 hours payable).

Accumulated vacation, sick, and personal leave represent a liability to the Department which is presented as both a current and long term portion of the liability in the government-wide financial statements. Payments to employees for vacation, sick, and personal leave are recorded as expenditures when they are used and payments are actually made to the employees.

At September 30, 2007, the Department's total liability for vacation, personal, compensation, and sick pay amounted to \$588,141, of which \$299,952 has been classified as a current liability.

**NOTE F: RETIREMENT PLANS**

Defined Benefit Plan Description

The Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Department. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE F: RETIREMENT PLANS - CONTINUED**

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Board of Public Health. The plan requires a contribution from the employees ranging from 0% to 3.75% of wages depending on the employee group covered. The Department is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended September 30, 2007, the Department's annual pension cost of \$450,030 for the plan was equal to the Department's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.0 % investment rate of return (b) projected salary increases of 4.5 % per year compounded annually, attributable to inflation (c) additional salary increases depending on age, seniority and merit, and (d) assumption benefits will increase 2.5% per year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over an open period of thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 9,458,106	\$10,008,674	\$10,733,157
Actuarial accrued liability (AAL) (entry age)	12,763,349	13,754,643	14,676,077
Unfunded AAL	3,305,243	3,745,969	3,942,920
Funded ratio	74 %	73 %	73 %
Covered payroll	4,304,693	4,500,747	4,865,773
UAAL as a percentage of covered payroll	77 %	83 %	81 %

	Year Ended September 30,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 430,157	\$ 470,095	\$ 450,030
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

Defined Contribution Plan

As of May 1, 2006, the Department established a defined contribution retirement plan through the Michigan Municipal Employees' Retirement System. Existing employees were given the opportunity to remain in the defined benefit plan or convert to the defined contribution plan. All employees hired after May 1, 2006 are covered under the defined contribution plan.

The plan is administered by the Michigan Municipal Employees' Retirement System with the International City Management Association Retirement Corporation ("ICMA") acting as investment fiduciaries. Contributions are determined by an employment agreement requiring employer contributions of 5% of covered payroll. As a supplement to the required employer contribution, eligible employees may also elect to contribute 5% of their salary through a payroll deduction, upon which the Department will match 5%.

The Department's contributions to the plan were \$16,866 for the year ended September 30, 2007.

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE G: DEFERRED COMPENSATION**

The Central Michigan District Health Department offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to substantially all Department employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered through Nationwide Retirement Solutions, Inc.

Legislative change has been made to 457 plans which mandate that no later than January 1, 1999 all existing 457 plan assets must be held in a custodial account, trust, annuity contract for benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of public employees creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. As a result, the plan assets are not reported in the audited financial statements by the Department because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

**NOTE H: RISK MANAGEMENT**

The Department carries commercial insurance for the risk of loss due to workers' compensation claims.

The Department also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. Members of the State pool do not have individual self-insured retention amounts other than a \$250 deductible per occurrence of property and crime coverage. State pool members' limits of coverage (per occurrence) are \$5 million for liability and about \$5 million for property. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Department has not been informed of any special assessments being required.

**NOTE I: NONCANCELABLE OPERATING LEASE OBLIGATIONS**

The Central Michigan District Health Department has entered into a twelve-year, noncancelable long-term lease for the Arenac branches office space. Rent expense for the year ended September 30, 2007 amounted to \$81,238.

Future minimum payments are as follows:

<u>Arenac</u>	
2008	\$ 81,238
2009	81,238
2010	81,238
2011	81,238
2012	81,238
2013-2015	<u>243,714</u>
TOTAL PAYMENTS	<u>\$ 649,904</u>

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE I: NONCANCELABLE OPERATING LEASE OBLIGATIONS - CONTINUED**

The Department also leases office space in three other counties on a month-to-month basis. The Department is generally responsible for utilities, maintenance and repairs, and certain insurance coverage related to leased properties. Total lease and lease related costs attributable to operating and month-to-month leases for the year ended September 30, 2007 were \$208,870.

**NOTE J: ADVANCES**

The following is an analysis of advances as of September 30, 2007:

Breast and Cervical Cancer	\$ 527
Dental	8,126
Children's trust	878
Medicaid	6,000
FAS/FPE	10,000
Mosquito	7,443
CPBC	( 3,251 )
Tribal	2,294
Clare County Children's trust	7,264
Medicaid	94,807
Department of Environmental Quality	( 10 )
	<u>\$ 134,078</u>

**NOTE K: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Department has set aside for specific purposes.

The following are the fund balance reserves as of September 30, 2007:

Reserved for prepaids	<u>\$ 35,356</u>
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The following are the fund balance designations as of September 30, 2007:

Designated for compensated absences	\$ 588,141
Designated for building	200,000
Designated for disability claims	52,267
Designated for children's special health	19,763
Designated for BCCCP	<u>6,474</u>
	<u>\$ 866,645</u>

**NOTE M: RESTATED NET ASSETS AND PRIOR PERIOD ADJUSTMENTS**

Beginning net assets were restated to recognize the historical cost, accumulated depreciation, and associated long-term debt of a capital lease on the Roscommon County Building as of September 30, 2006. Beginning net assets were decreased by \$54,765 in the governmental activities.

Central Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE M: RESTATED NET ASSETS AND PRIOR PERIOD ADJUSTMENTS - CONTINUED**

The following prior period adjustments were made during the current period, which was a result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance. The effect on operations and other affected balances for the current year and prior period are as follows:

	September 30,		
	<u>2007</u>	<u>2006</u>	
Accrued compensated absences	\$ -	\$( 294,031 )	To correct overstated
Fund balance - beginning	294,031	-	compensated absences
Inventory	-	30,665	To correct understated
Fund balance - beginning	30,665	-	inventory

**REQUIRED SUPPLEMENTARY INFORMATION**

Central Michigan District Health Department

BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND

Year Ended September 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Intergovernmental				
Federal/State	\$ 4,287,658	\$ 4,520,658	\$ 4,640,338	\$ 119,680
Local	562,552	561,402	839,733	278,331
Charges for services	2,359,300	2,543,114	2,008,908	(534,206)
Contributions	70,800	63,500	49,793	(13,707)
Interest	13,000	15,000	14,467	(533)
Other	300	125	10,131	10,006
<b>TOTAL REVENUES</b>	<b>7,293,610</b>	<b>7,703,799</b>	<b>7,563,370</b>	<b>(140,429)</b>
<b>EXPENDITURES</b>				
Current				
Salaries and wages	4,295,400	4,295,400	4,257,926	37,474
Fringe benefits	1,244,800	1,278,800	1,236,249	42,551
Supplies and materials	1,502,991	1,872,991	1,815,001	57,990
Contractual	316,800	282,800	288,723	(5,923)
Communications	89,700	77,539	79,454	(1,915)
Utilities	70,000	70,000	68,043	1,957
Travel and training	258,650	310,500	308,838	1,662
Insurance	83,000	78,000	77,349	651
Repairs and maintenance	100,000	104,000	86,373	17,627
Building and equipment lease and rentals	546,300	529,000	527,425	1,575
Printing and advertising	8,000	12,000	13,900	(1,900)
Postage	35,500	50,000	42,056	7,944
Other	8,000	8,300	23,062	(14,762)
<b>TOTAL EXPENDITURES</b>	<b>8,559,141</b>	<b>8,969,330</b>	<b>8,824,399</b>	<b>144,931</b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(1,265,531)</b>	<b>(1,265,531)</b>	<b>(1,261,029)</b>	<b>4,502</b>
<b>OTHER FINANCING SOURCES</b>				
County appropriations	1,202,004	1,202,004	1,202,004	-0-
Cigarette tax	63,527	63,527	63,527	-0-
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>1,265,531</b>	<b>1,265,531</b>	<b>1,265,531</b>	<b>-0-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-0-</b>	<b>-0-</b>	<b>4,502</b>	<b>4,502</b>
Fund balance, beginning of year	790,439	790,439	790,439	-0-
Prior period adjustments	-	-	324,696	324,696
<b>Fund balance, end of year</b>	<b>\$ 790,439</b>	<b>\$ 790,439</b>	<b>\$ 1,119,637</b>	<b>\$ 329,198</b>

## **OTHER SUPPLEMENTARY INFORMATION**

Central Michigan District Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2007

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through Michigan Department of Community Health Special Supplemental Nutrition Program for Women, Infants and Children (WIC) FY 06-07 Regular & Infrastructure	10.557	N/A	\$ 676,839
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			
Passed through Michigan Department of Environmental Quality State Grants to Reimburse Operations of Small Water Systems for Training and Certification Costs FY 06-07	66.471	N/A	13,200
Beach Monitoring and Notification Program Implementation Grants FY 06-07	66.472	N/A	<u>8,080</u>
<b>TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			<b>21,280</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Rural Health Care Services Outreach and Rural Health Network Development Program (Direct award) FY 06-07	93.912	N/A	25,750
Passed through Michigan Department of Community Health Family Planning Services (Family Planning) <sup>(a)</sup> FY 06-07	93.217	N/A	137,798
Immunization Grants <sup>(c)</sup> FY 06-07 IAP	93.268	N/A	65,972
FY 06-07 Provider Site Visits <sup>(b)</sup>		N/A	7,400
FY 06-07 Vaccine Supply		N/A	1,154,322
FY 06-07 Nurse Education <sup>(b)</sup>		N/A	1,800
FY 06-07 Immunization AFIX <sup>(b)</sup>		N/A	<u>1,650</u>
			<b>1,231,144</b>
Centers for Disease Control and Prevention - Investigations and Technical Assistance <sup>(c)</sup> FY 06-07	93.283		
Focus A		N/A	206,363
Pandemic Flu		N/A	<u>99,273</u>
			<b>305,636</b>
Temporary Assistance for Needy Families FY 06-07	93.558	N/A	20,000
Medical Assistance Program FY 06-07 Medicaid Administration	93.778	N/A	46,029
Case Management Services (CC-LBS) FY 06-07 CSHCS <sup>(b)</sup>		N/A	<u>76,547</u>
			<b>122,576</b>

Central Michigan District Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2007

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED</b>			
Passed through Michigan Department of Community Health - continued			
Preventive Health Services-Sexually Transmitted Diseases Control Grants FY 06-07	93.977	N/A	\$ 68,000
Maternal and Child Health Services Block Grant to the States FY 06-07 Family Planning Services <sup>(a)</sup>	93.994	N/A	27,798
FY 06-07 Local MCH		N/A	134,534
FY 06-07 Case Management Services		N/A	28,971
FY 06-07 SIDS <sup>(b)</sup>		N/A	<u>85</u>
			191,388
Passed through Michigan Department of Human Services and Michigan Department of Community Health			
HIV Prevention Activities - Health Department Based FY 06-07 <sup>(b)</sup>	93.940	N/A	2,000
Passed through Michigan Department of Human Services and Isabella County			
Promoting Safe and Stable Families FY 06-07	93.556		
Healthy Start		N/A	42,930
Success x 3		N/A	<u>24,081</u>
			<u>67,011</u>
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u><b>2,171,303</b></u>
<b>TOTAL FEDERAL AWARD EXPENDITURES</b>			<u><b>\$ 2,869,422</b></u>

(d)

Central Michigan District Health Department

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2007

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Central Michigan District Health Department and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a) - (d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the following approximate percentages of Federal participation:

<u>Program</u>	<u>CFDA Number</u>	<u>Approximate Percent</u>
Family Planning	93.217	78.0 %
Family Planning	93.994	19.0

- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes program tested as "major program".
- (d) The following reconciles the federal revenues reported in the September 30, 2007, fund financial statements to the expenditures of the Department administered federal programs reported on the Schedule of Expenditures of Federal Awards:

Federal/State Revenue (per financial statements)	\$ 4,640,338
<u>Less: Portions of grant funding considered "State" funding</u>	<u>( 1,770,916 )</u>
	<u>\$ 2,869,422</u>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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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

Board of Public Health  
Central Michigan District Health Department  
Mt. Pleasant, Michigan

We have audited the financial statements of the Central Michigan District Health Department as of and for the year ended September 30, 2007, and have issued our report thereon dated March 6, 2008. 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 Central Michigan District Health Department's internal control over financial reporting (internal control) 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 Department's internal control. Accordingly we do not express an opinion on the effectiveness of the Department's internal control.

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 a combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as 2007-1 through 2007-6 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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 Department's internal control.

Our consideration of internal control 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described as 2007-1, 2007-3, 2007-5, and 2007-6 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Central Michigan District Health Department'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*.

Central Michigan District Health Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Central Michigan District Health Department's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the management and Board of Public Health of Central Michigan District Health Department, others within the entity, 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.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 6, 2008

Principals

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Public Health  
Central Michigan District Health Department  
Mt. Pleasant, Michigan

Compliance

We have audited the compliance of the Central Michigan District Health Department with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that is applicable to each of its major federal programs for the year ended September 30, 2007. The Central Michigan District Health Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Central Michigan District Health Department's management. Our responsibility is to express an opinion on the Central Michigan District Health Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Central Michigan District Health Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Central Michigan District Health Department's compliance with those requirements.

In our opinion, the Central Michigan District Health Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the Central Michigan District Health Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Central Michigan District Health Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Central Michigan District Health Department's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management and Board of Public Health of Central Michigan District Health Department, others within the entity, 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.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 6, 2008

Central Michigan District Health Department  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended September 30, 2007

**Section I - Summary of Auditor's Results**

---

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?   X   Yes        No

Significant deficiencies identified that are not considered to be material weakness(es)?   X   Yes        None reported

Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?        Yes   X   No

Significant deficiencies identified that are not considered to be material weakness(es)?        Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133?        Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.268 93.283	Immunization Grants Centers for Disease Control and Prevention - Investigations and Technical Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes        No

**Section II - Financial Statement Findings**

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**2007-1 MATERIAL JOURNAL ENTRIES**

**Condition:** Material journal entries for the adjustment of accounts receivable and accounts payable were proposed by the auditors. These misstatements were not detected by the Department's internal control over financial reporting. By definition, independent auditors cannot be part of the government's internal controls.

Central Michigan District Health Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2007

**Section II - Financial Statement Findings - continued**

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**2007-1 MATERIAL JOURNAL ENTRIES - CONTINUED**

**Criteria:** Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Responsibility for the financial statements of the Department rests with the Department's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting). The auditor cannot be a part of internal controls.

**Effect:** Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Department's internal controls.

**Recommendation:** We recommend that the Department take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

**Corrective Action Response:** Monthly analysis will be performed to correct Accounts Receivable and Accounts Payable and any material journal entries will be created and posted to the General Ledger.

**2007-2 PREPARATION OF FINANCIAL STATEMENTS**

**Condition:** It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors.

**Criteria:** Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Responsibility for the financial statements of the Department rests with the Department's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting). The auditor cannot be a part of internal controls.

**Effect:** As a result of this condition, the employees and/or management may not possess the qualifications necessary to prepare the Department's annual financial statements and notes to the financial statements in accordance with GAAP. The Department relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

**Recommendation:** We recommend the Department consider obtaining proper training for the appropriate members of the Department's administration to assure that they are able to fully understand the requirements of preparing GAAP financial statements. This understanding is essential for the Department's administration to be able to accept responsibility for the amounts and disclosures included in the Department's financial statements.

**Corrective Action Response:** The agency will work with the auditing firm to identify proper training resources to assure that GAP Financial Statements will be prepared by agency staff.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2007

**Section II - Financial Statement Findings - continued**

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**2007-3 RECONCILIATION TO THE GENERAL LEDGER AND BANK RECONCILIATIONS**

**Condition:** During our analysis of the Department's bank accounts, we noted that the bank reconciliations had not been performed in a timely manner and/or did not agree with the computerized general ledger. Also, several balance sheet accounts including accounts receivable, accounts payable, and inventory were not reconciled with the general ledger as of September 30, 2007.

**Criteria:** Internal control is a process - effected by an entity's board of directors, management, and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

Internal control consists of five interrelated components:

- a. *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- b. *Risk assessment* is the entity's identification and analysis of relevant risk to achievement of its objectives, forming a basis for determining how the risks should be managed.
- c. *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- d. *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- e. *Monitoring* is a process that assesses the quality of internal control performance over time.

**Effect:** The completion of bank reconciliations and reconciliation of balance sheet accounts with the general ledger are a significant part of the internal controls of the Department. By not performing such reconciliations, the Department is not maintaining sufficient internal controls.

**Recommendation:** We recommend that bank reconciliations be completed on a monthly basis and that completed reconciliations be periodically reviewed by management and tied to the computerized general ledger. We also recommend that the Department review and reconcile all accounts monthly and ensure that the balances are agreed with the computerized general ledger prior to audit fieldwork. The review should be documented with the reviewer's initials and date of review and be retained for audit purposes.

**Corrective Action Response:** Bank reconciliations will be completed monthly and will be reviewed quarterly by Director of Administrative Services to assure that the Bank Reconciliations agree with the computerized General Ledger.

**2007-4 FRAUD RISK MANAGEMENT PROGRAM**

**Condition:** During the course of our audit, we noted that the Department has not developed or implemented a fraud risk management program.

**Criteria:** Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

**Effect:** Due to the Department not developing a fraud risk assessment and monitoring program it is unable to assess the Department's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

Central Michigan District Health Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2007

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**Section II - Financial Statement Findings - continued**

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**2007-4 FRAUD RISK MANAGEMENT PROGRAM - CONTINUED**

**Recommendation:** We recommend that the Department develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

**Corrective Action Response:** The agency is in the process of implementing policy and procedures to insure that fraudulent activities are reported to the Health Officer or the Board of Health.

**2007-5 RESTATEMENT OF NET ASSETS AND PRIOR PERIOD ADJUSTMENT**

**Condition:** During the course of our audit, it was noted that previously issued financial statements were materially misstated. A restatement of beginning net assets was recorded to reflect the correction of misstated capital assets and long-term debt. In addition, a prior period adjustment was recorded in the fund to correct overstated compensated absences recorded in the prior year.

**Criteria:** Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to the financial statement, in conformity with accounting principles generally accepted in the United States of America.

**Effect:** Since this error was not detected by the Department's internal control over financial reporting in the prior year, the Department's internal controls did not effectively allow management to detect material misstatements in the Department's financial statements in a timely manner.

**Recommendation:** We recommend that the Department review procedures related to the review of financial reporting and take steps to ensure that similar issues do not occur in the future.

**Corrective Action Response:** A process is being put in place with Isabella County and agency staff to regularly review capital asset and long term debt to assure that misstatements are corrected as they are identified.

**2007-6 SEGREGATION OF DUTIES**

**Condition:** During our consideration and assessment of fraud risk, we noted that the Department may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that bank reconciliation is completed by the accountant, who takes deposits to the bank and balances receipts to the accounting records. The accountant has full access to the general ledger system and prepares journal entries without any supervisory review. In addition, the accountant is also in charge of recording accounts receivable. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.). Reasonable segregation of duties is essential to sound internal control and necessary to prevent and detect errors and fraud.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2007

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**Section II - Financial Statement Findings - continued**

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2007-6 SEGREGATION OF DUTIES - CONTINUED

Criteria: Duties and responsibilities for handling receipts and disbursements should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.
- d. Performing the bank reconciliation.

Furthermore, when an employee has extensive access to the assets, that employee should not have the ability to record journal entries.

Effect: While this is a common occurrence in many organizations due to the limited number of employees, the Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the Department's management must provide a greater review and supervision of employee functions and procedures.

Recommendation: We recommend that the Department review various areas of operation and consider additional segregation of duties. At a minimum, we recommend that access to Department assets (such as handling of cash receipts) be segregated from the maintenance of the general ledger. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Department provide a greater review and supervision of employee functions and procedures.

Corrective Action Response: The agency is in the process of installing new financial software that will assist CMDHD in segregating duties. These duties will be reviewed and supervised by the Director of Administrative Services.

Central Michigan District Health Department  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
Year Ended September 30, 2007

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**Section III - Federal Award Findings and Questioned Costs**

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None

Central Michigan District Health Department

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended September 30, 2007

2006-1

In the prior year it was reported that the Department did not routinely prepare reconciliation of various control accounts in the general ledger to subsidiary ledgers or other supporting documentation. Those accounts included bank accounts and accounts receivable. As a result, there was an unreconciled difference of approximately \$25,000 between accounts receivable reported in the general ledger and the underlying subsidiary records. A similar issue was noted and reported in the current year audit findings.

2006-2

In the prior year it was reported that there was a lack of segregation among incompatible duties in the areas of cash receipts and disbursements. One person had the responsibility for maintaining the general ledger, reconciling bank accounts, receiving and depositing cash receipts, maintaining vendor files, processing accounts payable and is a check signer. A similar issue was noted and reported in the current year audit findings.