

# 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 Kalamazoo Community Mental Health SAS	County Kalamazoo
Fiscal Year End September 30, 2007	Opinion Date March 14, 2008	Date Audit Report Submitted to State March 17, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

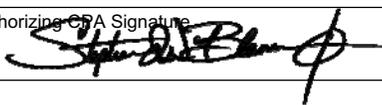
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **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"/>	Single Audit		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (517) 787-6503		
Street Address 675 Robinson Rd		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

**KALAMAZOO COMMUNITY MENTAL  
HEALTH AND SUBSTANCE ABUSE SERVICES**

**FINANCIAL STATEMENTS  
AND SINGLE AUDIT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

March 14, 2008

To the Board of Kalamazoo Community Mental  
Health and Substance Abuse Services  
Kalamazoo, Michigan

We have audited the accompanying basic financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority"), a component unit of Kalamazoo County, Michigan, as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Kalamazoo Authority'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Community Mental Health and Substance Abuse Services, as of September 30, 2007, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2008, on our consideration of the Authority'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 Authority has not presented Management's Discussion and Analysis (MD&A) as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and schedules listed in the table of contents are presented for purposes of additional analysis, and are 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.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **BASIC FINANCIAL STATEMENTS**

**KALAMAZOO COMMUNITY MENTAL HEALTH &  
SUBSTANCE ABUSE SERVICES**

**Statement of Net Assets  
September 30, 2007**

**Assets**

Current assets:

Cash and cash equivalents	\$ 4,759,457
Investments	10,123,899
Accounts receivable	1,550,807
Accounts receivable-Medicaid	227,335
Due from State	342,386
Due from affiliates	888,955
Prepays	342,773
Loan issuance costs	9,965
Total current assets	18,245,577

Non-current assets:

Long-term advances to providers	62,182
Capital assets not being depreciated	1,843,216
Capital assets being depreciated, net	2,305,107
Total non-current assets	4,210,505

Total assets	\$ 22,456,082
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**Liabilities**

Current liabilities:

Accounts payable	\$ 5,286,284
Accrued liabilities	980,271
Due to State	217,648
Due to affiliates	25,566
Due to providers	513,786
Unearned revenue	1,015,424
Current portion of long-term debt	650,077
Total current liabilities	8,689,056

Non-current liabilities:

Long-term debt, net of current portion	481,893
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Total liabilities	9,170,949
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**Net assets (Note 8)**

Invested in capital assets, net of related debt	3,604,461
Restricted	5,353,866
Unrestricted	4,326,806

Total net assets	13,285,133
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Total liabilities and net assets	\$ 22,456,082
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The accompanying notes are an integral part of these financial statements.

**KALAMAZOO COMMUNITY MENTAL HEALTH &  
SUBSTANCE ABUSE SERVICES**  
**Statement of Revenue, Expenses, and Changes in Fund Net Assets**  
**For the Year Ended September 30, 2007**

**Operating revenue**

Medicaid:	
Retained by PIHP	\$ 47,386,747
Sub-capitated to affiliates	27,582,579
General fund and other:	
Federal and state grants	15,542,166
Charges for services	1,052,262
Other revenue	361,657
Substance abuse revenue	
Medicaid:	
Retained by CA (PIHP)	1,500,527
Retained by CA (non-PIHP)	395,971
Block grant and other:	
Federal and state grants	3,264,147
Charges for services	33,740
PA2 funds	<u>1,145,900</u>
Total operating revenue	<u>98,265,696</u>

**Operating expenses**

Mental health program services:	
MI Adult population	19,822,204
DD population	21,497,290
Youth Services	7,736,532
Multipopulation	2,351,356
Substance abuse services	6,317,275
Payments to affiliates	27,582,580
QAAP expense	4,622,689
Management and general	<u>8,056,723</u>
Total operating expenses	<u>97,986,649</u>
Operating income	<u>279,047</u>

**Non-operating revenue (expenses)**

County appropriation	1,550,400
Interest revenue	888,373
Interest expense	<u>(33,331)</u>
Total non-operating revenue	<u>2,405,442</u>
Change in net assets	2,684,489
Net assets, beginning of year	<u>10,600,644</u>
<b>Net assets, end of year</b>	<u><u>\$ 13,285,133</u></u>

The accompanying notes are an integral part of these financial statements.

**KALAMAZOO COMMUNITY MENTAL HEALTH &  
SUBSTANCE ABUSE SERVICES**  
Statement of Cash Flows  
For the Year Ended September 30, 2007

<b>Cash flows from operating activities</b>	
Cash received from providing services	\$ 100,379,594
Cash payments to suppliers and affiliates	(89,261,227)
Cash payments to employees for services	<u>(9,565,555)</u>
Net cash provided by operating activities	<u>1,552,812</u>
<b>Cash flows from noncapital financing activities</b>	
Advances to providers	<u>(4,182)</u>
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	(452,650)
Principal payments	(119,213)
Interest payments	<u>(33,331)</u>
Net cash used by capital and related financing activities	<u>(605,194)</u>
<b>Cash flows from investing activities</b>	
Purchase of investments	(364,165)
Interest received	<u>888,373</u>
Net cash provided by investing activities	<u>524,208</u>
Increase in cash and cash equivalents	1,467,644
Cash and cash equivalents, beginning of year	<u>3,291,813</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 4,759,457</u></u>

**KALAMAZOO COMMUNITY MENTAL HEALTH &  
SUBSTANCE ABUSE SERVICES**  
**Statement of Cash Flows (Concluded)**  
**For the Year Ended September 30, 2007**

**Reconciliation of operating income to net cash provided by operating activities**

Operating income	\$ 279,047
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	247,209
Amortization of loan issuance costs	2,256
County appropriation	1,550,400
Changes in assets and liabilities:	
Accounts receivable	410,013
Accounts receivable-Medicaid	(153,931)
Due from State	74,712
Prepays	(125,249)
Accounts payable and accrued liabilities	154,245
Due to State	(1,118,594)
Unearned revenue	232,704
	232,704
Net cash provided by operating activities	\$ 1,552,812

**Non-Cash Transactions:**

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

The accompanying notes are an integral part of these financial statements.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the “Authority”), established under Section 205 of the Mental Health Code, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

**Reporting Entity** – The Authority is a Community Mental Health Authority serving the mental health needs of Kalamazoo County residents. These financial statements represent the financial condition and the results of operations of a component unit of Kalamazoo County, Michigan (the “County”) and are an integral part of that reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The County also provides financial support annually to the Authority.

**Financial Statements** - The basic financial statements report information on all of the activities of Kalamazoo Community Mental Health and Substance Abuse Services.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### **Business-type Activities**

Enterprise Fund – The Enterprise Fund is the Authority’s primary operating fund. It accounts for all financial resources of the Authority except those required to be accounted for in another fund.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation** – The enterprise fund is the Authority’s primary operating fund, and only major fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Authority’s operating fund are contract revenues from MDCH and first and third party billings. Operating expenses include the cost of providing mental health and substance abuse services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## NOTES TO FINANCIAL STATEMENTS

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**Capital Assets** - Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-40
Equipment and furniture	3-20
Vehicles	5

**Cash and Cash Equivalents** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less for the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

**Receivables** – Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements under the terms of its full management contract and from other agencies, governments and organizations for services rendered. Amounts receivable under the full management contract are subject to a cost settlement process and, as such, provision has been made by the Board for adjustments as estimated by management.

**Prepaids** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in the financial statements.

**Compensated absences** – It is the Authority's policy to permit eligible employees to accumulate up to a predetermined amount of vacation and sick leave in any one year. Upon termination, employees are paid for unused vacation at their current rates. Upon retirement, employees are paid for unused vacation and limited sick time at their current rates. It is the Authority's policy to recognize the cost of vacation and sick pay at the time the liability is incurred.

**Unearned Revenue** -- Unearned revenue represents that portion of the current-year MDCH contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to five percent of the MDCH contract amount.

Medicaid Savings are considered local funds under the contract with MDCH, and may be spent over a period of several years in accordance with a Medicaid Reinvestment Strategy. State General Funds carried over must generally be spent in the following year.

**KALAMAZOO COMMUNITY MENTAL  
HEALTH AND SUBSTANCE ABUSE SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**2. CASH AND INVESTMENTS**

**Deposits and Investments**

Following is a reconciliation of deposit and investment balances as of September 30, 2007:

<b>Statement of Net Assets</b>	
Cash and cash equivalents	\$ 4,759,457
Investments	<u>10,123,899</u>
Total	<u><u>\$ 14,883,356</u></u>
 <b>Deposits and Investments</b>	
Bank deposits:	
Checking/savings accounts	\$ 369,591
Certificates of deposit (maturing within one year)	2,676,183
Investments in securities and money market funds	11,837,102
Cash on hand	<u>480</u>
Total	<u><u>\$ 14,883,356</u></u>

As of year end, the Authority had the following investments:

	<b>Carrying Amount (Fair Value)</b>	<b>Maturity</b>	<b>Rating</b>
<b>Investments</b>			
Money market funds - LaSalle Bank	\$ 5,450,386	N/A	Not rated
Commercial paper - GE	<u>6,386,716</u>	< 1 year	S&P - A-1+
Total	<u><u>\$ 11,837,102</u></u>		

*Interest Rate Risk.* Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. The Authority's investment policy complies with State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities. The policy does not place specific limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities have been identified above for all of the Authority's investments.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## NOTES TO FINANCIAL STATEMENTS

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*Credit Risk – Investments.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Authority's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in below. The investment policy limits investments to be made with prudent judgment as to the safety of invested capital and probable outcome of income. Ratings have been identified above for all of the Authority's investments.

*Custodial credit risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$2,854,736 of the Authority's bank balance of \$3,054,736 was exposed to credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority requires securities held by a third party custodian to be evidenced by safekeeping receipts. The Authority's investments are not exposed to custodial credit risk since the securities are either held by the counterparty in the name of the Authority or uncategorized as to risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified below. Except for U.S. Treasury Securities and authorized investment pools, the Authority limits the amount invested in a single security type or single financial institution to be no more than 60% of the total portfolio. All investments held at year end are reported above.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## NOTES TO FINANCIAL STATEMENTS

### 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>Business-type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 445,911	\$ -	\$ -	\$ 445,911
Construction in progress	1,238,905	186,838	(28,438)	1,397,305
Total capital assets not being depreciated	1,684,816	186,838	(28,438)	1,843,216
Capital assets, being depreciated:				
Buildings and improvements	2,809,046	61,633	-	2,870,679
Equipment and furnishings	1,073,083	232,617	(2,062)	1,303,638
Vehicles	144,028	-	-	144,028
Total capital assets being depreciated	4,026,157	294,250	(2,062)	4,318,345
Less accumulated depreciation for:				
Buildings and improvements	(837,877)	(126,203)	-	(964,080)
Equipment and furnishings	(799,178)	(108,014)	2,062	(905,130)
Vehicles	(131,036)	(12,992)	-	(144,028)
Total accumulated depreciation	(1,768,091)	(247,209)	2,062	(2,013,238)
Total capital assets being depreciated, net	2,258,066	47,041	-	2,305,107
Capital assets, net	\$ 3,942,882	\$ 233,879	\$ (28,438)	\$ 4,148,323

### 4. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2007 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Mortgage payable	\$ 663,075	\$ -	\$ 119,213	\$ 543,862	\$ 61,969
Compensated absences	562,516	802,037	776,445	588,108	588,108
Total	\$ 1,225,591	\$ 802,037	\$ 895,658	\$ 1,131,970	\$ 650,077

The Authority's mortgage is payable to a bank secured by real estate and full faith and credit of the Authority, due in semi-annual installments of \$76,272, including interest at 5.26%, due October 2011.

**KALAMAZOO COMMUNITY MENTAL  
HEALTH AND SUBSTANCE ABUSE SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

Annual debt service requirements to maturity for the mortgage payable are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 61,969	\$ 14,303	\$ 76,272
2009	128,869	23,675	152,544
2010	135,737	16,807	152,544
2011	142,970	9,574	152,544
2012	74,317	1,955	76,272
	<u>\$ 543,862</u>	<u>\$ 66,314</u>	<u>\$ 610,176</u>

**5. PENSION PLANS**

The Authority maintains both a defined benefit plan and a defined contribution plan for its eligible employees.

**Defined Benefit Plan**

Plan Description – The Authority’s defined benefit pension plan provides retirement benefits and death benefits to plan members and beneficiaries. The Authority participates in the Kalamazoo County Employees’ Retirement System, a Public Employee Retirement System, which is administered by the Kalamazoo County Employees’ Retirement System. The Authority establishes and amends the benefit provisions of the participants in the Plan. The Kalamazoo County Employees’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Kalamazoo County Retirement System, 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384-8008.

Funding Policy – The Authority is required to contribute at an actuarially determined rate; the current rate is 3.00% of annual covered payroll. Employees are not required to contribute to the Plan. The contribution requirements of the Authority are established, and may be amended, by the Authority Trustees.

Annual Pension Cost – During the year ended September 30, 2007, the Authority made contributions to the plan totaling \$296,760, which are based on actuarial projections of funding requirements and are equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return, which includes an inflation component of 4.5% and (b) projected salary increases of 4.5% to 6.5% per year. The remaining amortization period for all liabilities at December 31, 2006, is 10 years.

**KALAMAZOO COMMUNITY MENTAL  
HEALTH AND SUBSTANCE ABUSE SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**Three-Year Trend Information**

<b>Fiscal year ended September 30,</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2005	\$ 536,088	100%	\$ -
2006	369,413	100%	-
2007	296,760	100%	-

**Defined Contribution Plan**

When the Authority became a separate legal entity, the Authority elected not to participate in the Social Security System. To provide its employees a similar retirement benefit, the Authority sponsored a 401 (h) plan. Under the terms of this Plan, both the Authority and its employees are required to contribute the same amounts that would be due if the Authority had elected to participate in the Social Security System. For the year ended September 30, 2007, the Authority and its employees each contributed \$533,681. The Authority is not a fiduciary with respect to the Plan, and accordingly, assets and liabilities of the Plan have been excluded from these financial statements.

**Other Postemployment Benefits**

Plan Description – The Authority’s other postemployment benefits plan provides health insurance benefits to eligible retirees. The Authority participates in the Kalamazoo County Retiree Health Care Plan, an employer financed retiree health benefit plan, which is administered by Kalamazoo County. The Authority establishes and amends the benefit provisions of the participants in the Plan. Kalamazoo County issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Kalamazoo County.

Funding Policy – The Authority is required to contribute at an actuarially determined rate; the current rate is 7.13% of annual covered payroll.

Annual Other Postemployment Benefit Cost – During the year ended September 30, 2007, the Authority made contributions to the plan totaling \$628,561, which are based on actuarial projections of funding requirements and are equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return, which includes an inflation component of 4.5% and (b) projected healthcare trend rates of 10.0% initial and 4.5% ultimate. The remaining amortization period for all liabilities at December 31, 2004, is 30 years.

**KALAMAZOO COMMUNITY MENTAL  
HEALTH AND SUBSTANCE ABUSE SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**Three-Year Trend Information \***

<b>Fiscal year ended September 30,</b>	<b>Annual OPEB Cost (APC)</b>	<b>Percentage of AOC Contributed</b>	<b>Net OPEB Obligation</b>
2007	\$ 628,561	100%	\$ -

\* 2007 is the first year for which this data is available. This table will be expanded in future years as additional data becomes available.

**6. RISK MANAGEMENT**

The risks of loss arising from general liability, property and crime, are minimized through participation in the Michigan Municipal Risk Management State Pool, a public entity risk pool currently operating as a common risk management program for government entities in the State of Michigan.

The Authority pays annual premiums to the state pool for insurance coverage up to a maximum of \$10,000,000 for aggregate general liability claims and \$5,205,000 for property and crime claims. In the event of unusually high claims, the state pool may assess member government units on a retroactive basis. The Authority purchases commercial insurance for risks of loss arising from employee health, medical, and workers' compensation claims. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

**7. CONTINGENCIES**

Under the terms of various Federal and State grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2007.

**KALAMAZOO COMMUNITY MENTAL  
HEALTH AND SUBSTANCE ABUSE SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**8. NET ASSETS**

**Invested in Capital Assets, Net of Related Debt**

As of September 30, 2007, net assets invested in capital assets, net of related debt were comprised of the following:

Invested in capital assets:	
Capital assets not being depreciated	\$ 1,843,216
Capital assets being depreciated, net	2,305,107
Mortgage payable	<u>(543,862)</u>
<b>Total investment in capital assets, net of related debt</b>	<b><u>\$ 3,604,461</u></b>

**Restricted Net Assets**

The Authority operates as a managed care provider to the State of Michigan. The Authority bears all costs up to 105% of the annual negotiated contract for Medicaid services. Costs between 105% and 110% are shared between the Authority and the State. All costs above 110% are borne by the State of Michigan. The Authority has restricted a portion of net assets and funded an amount to cover the risk exposure under its contract with the State of Michigan.

Following is a schedule of changes in restricted net assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Mental health	\$ 2,898,305	\$ 2,394,867	\$ -	\$ 5,293,172
Substance abuse	<u>58,968</u>	<u>1,726</u>	<u>-</u>	<u>60,694</u>
<b>Total restricted net assets</b>	<b><u>\$ 2,957,273</u></b>	<b><u>\$ 2,396,593</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,353,866</u></b>

Additions were comprised of current year interest earnings and contributions to the Medicaid Risk Reserve.

**Unrestricted Net Assets**

As of September 30, 2007, unrestricted net assets were comprised of the following:

Designated for equipment replacement	\$ 973,746
Undesignated	<u>3,353,060</u>
<b>Total unrestricted net assets</b>	<b><u>\$ 4,326,806</u></b>

\* \* \* \* \*

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Kalamazoo Community Mental Health and Substance Abuse Services  
Employees' Retirement System  
Required Supplementary Information**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (B)</b>	<b>Underfunded AAL (UAAL) (B-A)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a % of Covered Payroll ((B-A)/C)</b>
12/31/1997	\$ 9,115,383	\$ 7,700,948	\$ (1,414,435)	118.4%	\$ 6,309,426	-22.4%
12/31/1998	10,853,291	8,581,266	(2,272,025)	126.5%	6,703,157	-33.9%
12/31/1999	12,839,276	9,891,968	(2,947,308)	129.8%	6,948,912	-42.4%
12/31/2000	15,080,018	11,571,627	(3,508,391)	130.3%	7,246,718	-48.4%
12/31/2001	17,053,135	13,017,823	(4,035,312)	131.0%	7,458,238	-54.1%
12/31/2002	17,695,566	17,223,784	(471,782)	102.7%	8,686,961	-5.4%
12/31/2003	16,153,856	13,782,313	(2,371,543)	117.2%	7,395,382	-32.1%
12/31/2004	17,322,964	13,800,127	(3,522,837)	125.5%	6,950,369	-50.7%
12/31/2005	18,590,919	14,106,806	(4,484,113)	131.8%	7,407,981	-60.5%
12/31/2006	21,000,047	15,485,864	(5,514,183)	135.6%	8,246,246	-66.9%

**Retiree Health Care Plan  
Required Supplementary Information**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (B)</b>	<b>Underfunded AAL (UAAL) (B-A)</b>	<b>Funded Ratio (A/B)</b>	<b>Covered Payroll (C)</b>	<b>UAAL as a % of Covered Payroll ((B-A)/C)</b>
12/31/2004	\$ -	\$ 5,765,260	\$ 5,765,260	0.0%	\$ 6,950,369	82.9%

## **SUPPLEMENTARY INFORMATION**

SCHEDULE A

**Kalamazoo CMHSAS Coordinating Agency**  
**Substance Abuse Prevention & Treatment**  
**Schedule of Budgeted, Reported, and Audited Amounts**  
**For the Year Ended September 30, 2007**

<u>Fund Source</u>	<u>Budgeted</u>	<u>Reported</u>	<u>Audited Expenditures</u>	<u>Variance-Audited/Reported</u>	<u>Local Match Funds</u>
<b>A State Agreement</b>					
1 Community Grant	\$ 3,066,251	\$ 3,066,251	\$ 3,066,251	\$ -	\$ -
2 SDA	43,431	43,431	43,431	-	-
3 SIG	144,302	106,807	106,807	-	-
4 Methamphetamine	64,000	64,000	64,000	-	-
<b>A Subtotal</b>	<u>3,317,984</u>	<u>3,280,489</u>	<u>3,280,489</u>	<u>-</u>	<u>-</u>
<b>B Medicaid</b>					
1 Current Year PEPM (Federal & State)	-	1,742,674	1,742,674	-	-
2 Reinvestment Savings	-	-	-	-	-
<b>B Subtotal</b>	<u>-</u>	<u>1,742,674</u>	<u>1,742,674</u>	<u>-</u>	<u>-</u>
<b>C Adult Benefit Waiver (ABW)</b>					
1 Current Year PEPM (federal share only)	88,000	80,246	80,246	-	-
<b>C Subtotal</b>	<u>88,000</u>	<u>80,246</u>	<u>80,246</u>	<u>-</u>	<u>-</u>
<b>D MI CHILD</b>					
1 Current Year PEPM	5,900	150	150	-	-
<b>D Subtotal</b>	<u>5,900</u>	<u>150</u>	<u>150</u>	<u>-</u>	<u>-</u>
<b>E Local</b>					
1 Current Year PA2	922,266	850,625	850,625	-	850,625
2 PA2 Fund Balance	295,275	295,275	295,275	-	295,275
3 Other Local (R325.4152 excluding subsection (1)(b))	-	37,643	37,643	-	37,643
<b>E Subtotal</b>	<u>1,217,541</u>	<u>1,183,543</u>	<u>1,183,543</u>	<u>-</u>	<u>1,183,543</u>
<b>F Fees &amp; Collections- Subtotal (R325.4151 (1)(d))</b>	<u>90,000</u>	<u>102,205</u>	<u>102,205</u>	<u>-</u>	<u>102,205</u>
<b>G Other Contracts &amp; Sources (Subtotal)</b>	<u>41,000</u>	<u>65,294</u>	<u>65,294</u>	<u>-</u>	<u>-</u>
<b>Grand Total of Subtotals A-G</b>	<u>\$ 4,760,425</u>	<u>\$ 6,454,601</u>	<u>\$ 6,454,601</u>	<u>\$ -</u>	
<b>Amount Billable to MDCH (Section A audited subtotal)</b>			<b>\$ 3,280,489</b>		
<b>Total MDCH Payments</b>			<u><b>3,371,984</b></u>		
<b>(Overpayment)/Underpayment</b>			<u><b>\$ (91,495)</b></u>		
<b>Local Match Funds Total</b>					<b>1,285,748</b>
<b>Less: Local Match Requirement [(Grand Total of Audited Expenditures-B-C-D-G) * 10%]</b>					<u><b>456,624</b></u>
<b>Local Match (Shortfall)/Excess</b>					<u><b>\$ 829,124</b></u>

**SCHEDULE B**

**Kalamazoo CMHSAS Coordinating Agency**  
**Substance Abuse Prevention & Treatment**  
**Schedule of Expenditures and Funding Sources by Program**  
**For the Year Ended September 30, 2007**

<b>Program</b>	<b>Budgeted (FINAL)</b>	<b>Reported (FINAL RER)</b>	<b>Audited Expenditures</b>			
			<b>Gross Amount</b>	<b>Less Medicaid</b>	<b>Less Fees</b>	<b>Net Amount</b>
Administration	\$ 365,641	\$ 608,945	\$ 608,945	\$ 243,304	\$ -	\$ 365,641
Prevention	1,246,497	1,156,272	1,156,272	-	19,348	1,136,924
Treatment	2,620,363	4,158,715	4,158,715	1,499,370	78,975	2,580,370
Women's Services	252,000	292,240	292,240	-	3,882	288,358
HIV/EIP Training	67,150	67,150	67,150	-	-	67,150
SPF/SIG	144,302	106,807	106,807	-	-	106,807
Methamphetamine	64,472	64,472	64,472	-	-	64,472
Other	-	-	-	-	-	-
<b>Totals</b>	<b><u>\$ 4,760,425</u></b>	<b><u>\$ 6,454,601</u></b>	<b><u>\$ 6,454,601</u></b>	<b><u>\$1,742,674</u></b>	<b><u>\$102,205</u></b>	<b><u>\$ 4,609,722</u></b>

**Reconciliation of PA2 Funds:**

Beginning Balance	\$ 481,668
Current Year PA2	1,045,115
Expenditures	<u>(1,145,900)</u>
Ending Balance	<u>\$ 380,883</u>

**SCHEDULE B**

State Agreement	Audited Funding Sources						Total Funding	Variance-Audited/Reported
	SDA	PA2	Other Local	Other Sources	ABW	MI CHILD		
\$ 365,641	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 365,641	\$ -
735,354	-	339,927	37,643	24,000	-	-	1,136,924	-
1,721,106	43,431	701,697	-	33,740	80,246	150	2,580,370	-
177,000	-	103,804	7,554	-	-	-	288,358	-
67,150	-	-	-	-	-	-	67,150	-
106,807	-	-	-	-	-	-	106,807	-
64,000	-	472	-	-	-	-	64,472	-
-	-	-	-	-	-	-	-	-
\$3,237,058	\$ 43,431	\$ 1,145,900	\$ 45,197	\$ 57,740	\$ 80,246	\$ 150	\$ 4,609,722	\$ -
43,431								
<b>\$3,280,489</b>								

**Reconciliation of Medicaid Managed Care (PEPM) Funds:**

PEPM Payments Received	\$ 1,959,168
Medicaid Savings Carried Over	-
Expenditures	(1,742,674)
Medicaid Savings Carryforward	(22,932)
Returned to PIHP	<u>\$ 193,562</u>

# **SINGLE AUDIT**



**INDEPENDENT AUDITORS' REPORT 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**

March 14, 2008

To the Board of Kalamazoo Community Mental  
Health and Substance Abuse Services  
Kalamazoo, Michigan

We have audited the basic financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority"), as of and for the year ended September 30, 2007, as listed in the table of contents and have issued our report thereon dated March 14, 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 Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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.

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 an entity's internal control.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority, in a separate letter dated March 14, 2008.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



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

March 14, 2008

To the Board of Kalamazoo Community Mental  
Health and Substance Abuse Services  
Kalamazoo, Michigan

**Compliance**

We have audited the compliance of Kalamazoo Community Mental Health and Substance Abuse Services with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Authority's major federal programs are identified in the summary of auditors' 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 Authority's management. Our responsibility is to express an opinion on the Authority'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 Non-Profit 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 an Entity'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 Authority's compliance with those requirements.

As described in item 2007-1 in the accompanying schedule of findings and questioned costs, Kalamazoo Community Mental Health and Substance Abuse Services did not comply with requirements regarding allowable costs and cost principles that are applicable to the Community Mental Health Services Block Grant (CFDA #93.958) and the Substance Abuse Prevention and Treatment Block Grant (CFDA #93.959) major federal programs. Compliance with such requirements is necessary, in our opinion, for Kalamazoo Community Mental Health and Substance Abuse Services to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Kalamazoo Community Mental Health and Substance Abuse Services 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 Kalamazoo Community Mental Health and Substance Abuse Services is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the 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 Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency.

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. We consider the significant deficiency described above to be a material weakness.

The Authority's response to the finding indentified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, the governing body, 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.



**Kalamazoo Community Mental Health and Substance Abuse Services**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2007**

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>		
Direct Program -		
Supportive Housing Program:		
HUD Grant (HBI)-Renewal 1 (1 yr.)	14.235	\$ 186,870
HUD Grant (HBI)-Renewal 2 (1 yr.)	14.235	89,284
HUD Grant (HBII)-(3 yr.)	14.235	258,655
HUD Grant (HBIII)-(3 yr.)	14.235	48,923
HUD Grant (HB Full Count)-(3 yr.)	14.235	<u>30,365</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<u>614,097</u>
<b>U.S. Department of Health and Human Services</b>		
Direct Program -		
Child Mental Health Initiative	93.104	<u>1,544,161</u>
Passed through Michigan Department of Community Health:		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	<u>37,500</u>
Substance Abuse and Mental Health Services:		
Infrastructure Program for Substance Abuse Prevention	93.243	106,807
Prevention of Meth Abuse in MI	93.243	<u>64,000</u>
		<u>170,807</u>
Child Care and Development Block Grant	93.575	<u>73,408</u>
Medical Assistance Program -		
OBRA - PASSAR	93.778	<u>131,220</u>
Community Mental Health Services Block Grant:		
Keystone Equipment Block Grant	93.958	9,849
PMTO Block Grant	93.958	64,697
MIFPI Wraparound	93.958	75,000
Family Psycho Education Block Grant	93.958	29,421
Recovery Institute Block Grant	93.958	76,069
MRC - Clubhouse Initiative Block Grant	93.958	53,580
Self D Initiative for MIA	93.958	56,000
IDDT Grant	93.958	77,284
Hispanic - Peer Support Specialists	93.958	27,037
3 R's Block Grant	93.958	65,426
Clubhouse Training	93.958	<u>6,300</u>
		<u>540,663</u>
Substance Abuse Prevention and Treatment Block Grant - Prevention	93.959	<u>2,399,681</u>
Total Michigan Department of Community Health		<u>3,353,279</u>
Passed through Michigan Department of Human Services:		
Promoting Safe and Stable Families	93.556	<u>55,000</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>4,952,440</u>
<b>Total expenditures of federal awards</b>		<u><u>\$ 5,566,537</u></u>

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kalamazoo Community Mental Health and Substance Abuse Services and is presented on the 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 Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

### 2. SUBRECIPIENTS

Of the Federal expenditures presented in the schedule, Kalamazoo Community Mental Health and Substance Abuse Services provided federal awards to subrecipients, as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Child Mental Health Initiative	93.104	\$ 558,079
Projects for Assistance in Transition from Homelessness	93.150	78,355
Substance Abuse and Mental Health Services	93.243	162,033
Community Mental Health Services Block Grant	93.778	131,220
Community Mental Health Services Block Grant	93.958	121,932
Substance Abuse Prevention and Treatment Block Grant	93.959	912,354

\* \* \* \* \*



**KALAMAZOO COMMUNITY MENTAL  
HEALTH AND SUBSTANCE ABUSE SERVICES**

**Schedule of Findings and Questioned Costs (Continued)**

**For the Year Ended September 30, 2007**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.958	Community Mental Health Services Block Grant
93.959	Substance Abuse Prevention and Treatment Block Grant

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**

None.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**2007-1                   CFDA 93.958 & CFDA #93.959 - Allocation and Certification of Payroll Expenditures**

**Criteria:**           The Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports, except when a substitute system has been approved by the cognizant Federal agency. The Circular requires these reports be prepared at least monthly and must coincide with one or more pay periods. For employees charged entirely to one federal program, the use of semiannual certifications is also permissible.

**Condition:**        During the year ended September 30, 2007, payroll charges to both the Community Mental Health Services Block Grant and the Substance Abuse Prevention and Treatment Block Grant were allocated for those who do not work one hundred percent on a single program. However, there was no documentation that the allocation was approved by the employee or the supervisor. The majority of the employees work one hundred percent on a single program. However, in these cases, required payroll certifications were not completed, nor did their timesheets reflect to which program their time should be charged.

**KALAMAZOO COMMUNITY MENTAL  
HEALTH AND SUBSTANCE ABUSE SERVICES**

**Schedule of Findings and Questioned Costs (Concluded)**

**For the Year Ended September 30, 2007**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)**

**2007-1 Allocation and Certification of Payroll Expenditures (Concluded)**

**Cause:** This condition appears to be the result of lack of specific knowledge and understanding of the payroll documentation methods allowed by federal guidelines.

**Effect:** The Authority is not in compliance with the payroll documentation guidelines established in OMB Circular A-87.

**Questioned costs:** Personnel costs included in our sample of payroll transactions for which proper documentation in accordance with OMB Circular A-87 was lacking amounted to \$50,820.

**Recommendation:** We recommend that the Authority establish procedures to ensure that all payroll costs are properly documented in accordance with OMB A-87. Employees should track on their timesheets the number of hours spent working for each federal program. The timesheets should be signed by the employee and a supervisor who had direct knowledge of the employee's work schedule. Using the information from the timesheets, salaries and wages could be allocated to the various federal programs and tracked through the accounting system. For employees charged entirely to one cost center, payroll certifications should be prepared and signed on a semiannual basis.

**Management's response:** KSMHSAS was aware of the OMB A-87 requirement regarding employees split to multiple cost centers or cost objectives and required employees to document time split between these cost centers and cost objectives. It was KCMHSAS' initial interpretation that employees involved 100% in a given cost center or cost objective were not required to certify this on their time sheets. OMB A-87 requires a semi-annual certification for those employees working 100% within an individual cost center or cost objective. KCMHSAS management will adopt and certify this employee class as directed in OMB A-87.

**SECTION IV – PRIOR YEAR FINDINGS**

None.

\* \* \* \* \*



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



March 14, 2008

To the Board of Kalamazoo Community Mental  
Health and Substance Abuse Services  
Kalamazoo, Michigan

We have audited the financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority") for the year ended September 30, 2007, and have issued our report thereon dated March 14, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated December 3, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Authority's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Authority's compliance with those requirements.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.

We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

# **Kalamazoo Community Mental Health and Substance Abuse Services**

## **Comments and Recommendations**

**For the Year Ended September 30, 2007**

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In planning and performing our audit of the financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority") as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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.

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 entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses, as defined above.

### **Other Matters**

#### **Internal Controls over Cash – Bank Reconciliations**

Criteria:	Properly completed bank reconciliations, prepared on a timely basis, are a fundamental element of internal control. State guidelines prescribe that bank reconciliations should be completed within six weeks from the end of a particular month.
Condition/Finding:	During our fieldwork, we noted that the September 2007 bank reconciliations were not completed until December. Additionally, we noted that bank reconciliations for October through December 2007 had not been completed at the time of our initial fieldwork in January 2008.
Cause:	Management indicated that the personnel responsible for completing bank reconciliations had recently changed.
Effect:	Failure to complete bank reconciliations on a timely basis exposes the Authority to an increased risk of misstatements, whether caused by error or fraud.

# **Kalamazoo Community Mental Health and Substance Abuse Services**

## **Comments and Recommendations**

**For the Year Ended September 30, 2007**

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Recommendation/Comment: All monthly bank reconciliations should be completed within six weeks following month end (or the date of the bank statement if other than month end). The reconciliation should identify all reconciling items and eliminate any variances.

### **Approvals on Financial Status Reports**

Criteria: Proper internal controls related to financial status reports require approvals to occur and be documented for the submission of each report.

Condition/Finding: No approvals were noted on the submitted Financial Status Reports for three of the grants related to current year major programs.

Cause: The reports are forwarded to the Finance Director when submitted but the Authority was not aware that documented approval was necessary.

Effect: As a result of this condition, the Authority lacks proper internal controls over the preparation of financial status reports, thus improper expenses and/or amounts expended could be improperly reported without being detected.

Recommendation/Comment: All Financial Status Reports should have a documented approval by a party knowledgeable of the grant, such as the program manager or Finance Director, prior to submission.

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