Financial Statements

Shiawassee County Community Mental Health Services Authority

September 30, 2005

Michigan Deptartment of Treasury
496 (2-04)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☑ Other	**Shiawassee Co. Comm. Mental Health**	**Shiawassee**

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
9/30/05	**3/17/06**	**5/15/06**

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ Yes ☑ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ Yes ☑ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☐ Yes ☑ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ Yes ☑ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ Yes ☑ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ Yes ☑ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ Yes ☑ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ Yes ☑ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ Yes ☑ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)			
ROSLUND, PRESTAGE AND COMPANY, PC			
Street Address: **308 GRATIOT AVENUE**	City: **ALMA**	State: **MI**	ZIP: **48801**
Accountant Signature: Roslund Prestage & Company P.C.		Date: 5-12-06	

Shiawassee County Community Mental Health Services Authority
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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Shiawassee County Community Mental Health Services Authority
Owosso, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Shiawassee County Community Mental Health Services Authority (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic 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 respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 17, 2005, on our consideration of the Authority's internal control over financial reporting and our test 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.

ROSLUND, PRESTAGE & COMPANY, P.C.
308 GRATIOT AVENUE • ALMA • MICHIGAN • 48801
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The Management's Discussion and Analysis on pages I-VII, and budgetary comparison information on pages 28-29, are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. 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 financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

March 17, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Management's Discussion and Analysis

For the year ended September 30, 2005

This section of the Shiawassee County Community Mental Health Authority (The Authority) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2005. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

For fiscal 2005, the source of Medicaid revenue remained the same. The Authority continues to affiliate with Bay Arenac Behavioral Health Authority as the designated PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Tuscola and Shiawassee counties. The Authority subcontracts for Medicaid funding through the PIHP, rather than directly with the state as in years prior to fiscal 2003. State general fund revenue and other grants and earned contracts continue to be sourced directly from the state.

The basic financial statements contained in this annual financial report are presented in comparison to the prior years. This will help provide a context for the reader and assist in understanding the financial position of the Authority.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are agency-wide financial statements and fund financial statements.

Agency-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all 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 improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the agency-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

SUMMARY OF NET ASSETS

The following summarizes the assets, liabilities and net assets on an agency-wide basis as of September 30, 2005 and 2004.

Summary of Net Assets

As of September 30, 2005 and 2004

(In $000s)

	2005	2004	$ Change
Assets			
Current assets	$ 4,795	$ 5,178	$ (383)
Restricted assets	585	760	$ (175)
Capital assets	277	421	$ (144)
Total assets	**5,657**	**6,359**	**(702)**
Liabilities			
Current liabilities	2,220	2,314	$ (94)
Noncurrent liabilities	241	344	$ (103)
Total liabilities	**2,460**	**2,658**	**(198)**
Net Assets			
Investment in capital assets	359	543	$ (183)
Restricted for capital purposes	156	130	$ 26
Restricted for risk management	132	204	$ (72)
Unrestricted	2,550	2,825	$ (275)
Total net assets	**$ 3,197**	**$ 3,701**	**$ (504)**
Current Position	2,575	2,864	(289)

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive $2.6 million, a decrease of $289 thousand or 10%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

At year-end, current assets include $1,585,791 (FY04 $621 thousand and FY05 $1,080 thousand; less $116 thousand of FY03 prior period adjustment) of additional Medicaid funding for fiscal 2004 and 2005. This additional funding was made available by the

affiliation to fund the full cost of Medicaid supports and services in the Shiawassee county local service area.

Also at year-end, $53,859 of state general fund formula funding remained unspent and that full amount will be carried forward as deferred revenue into fiscal 2006.

Restricted assets consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of $585 thousand have decreased by $175 thousand.

Included in this category are assets restricted for capital purposes or funded depreciation. These are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2005, the Authority fully funded its annual depreciation expense of $175 thousand.

The assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract still maintained directly with the state. At year-end, the balance was $132 thousand and is fully funded to its contractual maximum annual risk exposure of 7.5% of the funds at risk.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These were previously reported in the general fixed asset account group. Under the provisions of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be net of the accumulated depreciation that would have otherwise been reported in prior years. As of the beginning of fiscal 2005, capital assets having an original book value of $2.47 million were recorded, net of restated accumulated depreciation of $2.05 million, for a beginning net book value of $421 thousand.

In fiscal 2005, $94 thousand was expended for capital acquisitions. These acquisitions included vehicles, office equipment, furniture and leasehold improvements . There were disposals of $44 thousand of assets. Depreciation expense on previously existing and newly acquired capital assets was $238 thousand. The net change in capital assets was a decrease of $144 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 11% of the original book value. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Noncurrent liabilities consist of long-term debt related to the acquisition of capital assets (new capital lease liability) and the liability for compensated absences. Principal payments for the year were $96 thousand. The liability for compensated absences includes vested paid time off.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were $2.55 million, a decrease of $27 thousand or 0.90% for the year. Unrestricted net assets were 45.1% of total assets, up 3% from the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an agency-wide basis for the years ended September 30, 2005, and 2004.

Summary of Activities

For the years ended September 30, 2005 and 2004

(In $000s)

	2005	2004	Change	% Change
Revenue				
Medicaid specialty supports and services	$ 9,847	$ 9,453	$ 395	4.2%
State general fund priority populations	1,682	1,489	193	12.9%
Adult Benefits Waiver program	231	286	(54)	-19.0%
Program service revenue	188	348	(159)	-45.8%
Grants and earned contracts	202	146	56	38.0%
County appropriation	200	200	-	0.0%
Interest income	56	32	23	71.4%
Other local income	160	50	110	219.4%
Total revenue	**12,567**	**12,004**	**563**	4.7%
Expense				
Personnel expense	7,203	7,574	(371)	-4.9%
Operating expense	4,776	3,701	1,075	29.0%
Local funds contributed to State	164	164	-	0.0%
Interest expense	13	20	(7)	-34.9%
Depreciation	238	272	(35)	-12.7%
Total expense	**12,394**	**11,731**	**662**	5.6%
Excess of revenue over expense	**174**	**273**	(99)	-36.4%
Prior Period Adjustments	(469)	-	-	0.0%
Change in net assets	**$ (295)**	**$ 273**	**$ (568)**	-208.3%

Excess of revenue over expenses from activities for the current year was $174 thousand or 1.3% of revenue. This is a decrease of $99 thousand from the prior year surplus of $273 thousand.

Prior Period Adjustments were made to account for revision of the FY2003 and FY2004 Contract Reconciliation reports in the amount of $440 thousand. Changes were made in the accounting for depreciation in those years. Also, adjustments were made for a refund to a consumer $525 thousand and to relieve a FY1998 liability related to AIS Group Home billing from that year in the amount of $498 thousand;

Revenue for the year was $12.567 million, an increase of $563 thousand or 4.7% from the prior year.

Medicaid specialty supports and services revenue represents 78.4% of total revenue and increased $395 thousand or 4.2% compared to the prior year. This increase is attributed to an increase in the demand for Medicaid services and increases in overall agency costs. As previously discussed, the source of Medicaid specialty supports and service revenues is Bay Arenac Behavioral Health the PIHP and as previously discussed $395 thousand of the increase was additional funding provided to the Authority by the PIHP affiliation. This subcontract is on a net cost not to exceed basis.

State general fund priority population revenue (formula funding) represents 13.4% of total revenue and increased $193 thousand or 12.9% compared to the prior year. The General Fund revenue is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. There were $54 thousand of current year funds deferred to next year and there was no lapse of state general funds to MDCH in the current year.

Adults Benefit Waiver (ABW) ABW represents 1.8% of total revenue. Of note is that any unspent balance of the ABW allocation becomes local funds.

Program service revenue includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 1.5% of total revenue and have decreased $159 thousand or 45.8% from the prior year.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 1.6% of total revenue and have increased $56 thousand or 38% from the prior year.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 3.3% of revenue and have increased $133 thousand or 162% from the prior year.

Total expense of $12.4 million has increased $662 thousand or 5.6% compared to the prior year. Personnel expense is 58.1% of total expense and has decreased $371 thousand or 4.9%. Operating expense is 38.5% of total expense and has increased $1.075 million or 29.0%.

FUTURE OUTLOOK

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown, but the outlook is not good. Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures.

Within the affiliation, while revenues are expected to be flat, there does appear to be adequate Medicaid funding in the region to support the operation. As resources become scarce in the region, creative and actuarially sound funding allocation methods will be used to appropriately distribute Medicaid funds throughout the region. Given the potential future shortfall of Medicaid funds, the Authority will continue to pursue cost reduction and or cost containment strategies.

In particular at the Authority, service delivery system changes are anticipated. Several programs will be evaluated and will be implementing evidenced based clinical practices designed to increase outcomes and reduce overall costs. Examples of this include self determination and integrated co-occurring disorders treatment. In addition opportunities for administrative operating efficiencies will continue to be explored. The Authority will evaluate the purchase and renovation of a building to consolidate the Authority operations.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$2,812,871	$3,197,452
Accounts receivable, net	160,331	136,315
Due from other governmental units	1,740,863	1,683,821
Prepaid expenses	80,692	160,371
Total current assets	4,794,757	5,177,959
Noncurrent assets		
Cash and cash equivalents - restricted	584,621	760,089
Capital assets - depreciable, net	277,220	421,195
Total noncurrent assets	861,841	1,181,284
Total assets	5,656,598	6,359,243
Liabilities		
Current liabilities		
Accounts payable	749,845	582,782
Deferred revenue	101,934	184,363
Due to other governmental units	105,867	942,110
Accrued wages and other payroll liabilities	1,158,627	508,891
Current portion of capital lease	103,347	95,805
Noncurrent liabilities		
Compensated absences	222,879	222,879
Capital Lease	17,998	121,345
Total liabilities	2,460,497	2,658,175
Net Assets		
Invested in capital assets, net of related debt	155,875	204,045
Reserved for risk management	132,120	129,682
Reserved for capital purposes	359,189	542,571
Unrestricted	2,548,917	2,824,770
Total net assets	$3,196,101	$3,701,068

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes Net Assets	2004
Governmental activities					
Health & Welfare - Mental Health	$12,441,736	$10,035,805	$2,475,758	$69,827	$406,216
General revenues					
Unrestricted investment earnings				55,545	31,048
Restricted investment earnings				1,886	1,357
Total general revenues and contributions				57,431	32,405
Transfers to affiliates				(163,739)	(163,740)
Change in net assets				(36,481)	274,881
Net assets - beginning of year				3,701,068	3,426,187
Prior period adjustment				(468,486)	-
Net assets - end of year				$3,196,101	$3,701,068

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Assets		
Current Assets		
Cash And Investments	$2,812,871	$3,197,452
Accounts Receivable	160,331	136,315
Due From Other Governmental Units	1,740,863	1,683,821
Prepaid Expenses	80,692	160,371
Cash and Cash Equivalents - Restricted	584,621	760,089
Total Assets	$5,379,378	$5,938,048
Liabilities		
Accounts Payable	$749,845	$582,782
Deferred Revenue	101,934	184,363
Due To Other Funds	132,120	129,682
Due To Other Governmental Units	105,867	942,110
Accrued Wages & Other Payroll Liabilities	1,158,627	508,891
Total Liabilities	2,248,393	2,347,828
Fund Balance		
Reserved For Prepaid Expenses	80,692	160,371
Reserved For Capital Purposes	359,189	542,571
Unreserved	2,691,104	2,887,278
Total Fund Balances	3,130,985	3,590,220
Total Liabilities and Fund Balances	$5,379,378	$5,938,048

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Total fund balance - governmental funds		$3,130,985
Amounts reported for 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 in the funds.		
Add:	Capital assets	2,519,566
Deduct:	Accumulated depreciation	(2,242,346)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Add:	Net assets of governmental activities accounted for in the internal service fund	132,120
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Deduct:	Capital lease	(121,345)
Deduct:	Compensated absences	(222,879)
Net assets of governmental activities		$3,196,101

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
REVENUES	2005	2004
State Grants		
State General Fund - DCH Contract	$1,682,185	$1,489,405
Adult Benefit Waiver	231,265	285,680
MI Child	13,107	14,670
Tobacco Tax	10,214	8,376
Homeless Housing	2,315	4,441
Title XX	7,277	7,277
Total State Grants	1,946,363	1,809,849
Federal Grants		
Wraparound	87,461	87,461
Mental Health Block Grant	75,000	-
PAS / ARR	13,729	31,269
Total Federal Grants	176,190	118,730
Contributions - Local Units		
County Appropriation	200,000	200,000
Total Contributions - Local Units	200,000	200,000
Charges For Services		
Medicaid - Affiliate Contract	9,847,441	9,452,663
Client And Third Party Pay	188,364	347,699
Total Charges For Services	10,035,805	9,800,362
Interest And Rents		
Interest	55,545	31,048
Other Revenue	153,205	42,960
Total Revenues	12,567,108	12,002,949

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
EXPENDITURES	2005	2004
Health & Welfare - Mental Health		
Personnel Costs	$7,202,552	$7,515,821
Operating Expenditures	4,988,328	3,810,758
Debt Service	109,021	-
Capital Outlay	93,665	202,491
Total Expenditures	12,393,566	11,529,070
Excess Of Revenues Over Expenditures	173,542	473,879
Other Financing Sources (Uses)		
Proceeds From Capital Lease	-	6,110
Operating Transfers In (Out) - Transfers To Affilliates	(163,739)	(163,740)
Operating Transfers In (Out) - Internal Service Fund	-	24,299
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	9,803	340,548
Fund Balance, October 1	3,590,220	3,249,672
Prior Period Adjustment	(469,038)	-
Fund Balance, September 30	$3,130,985	$3,590,220

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances - total governmental funds	$9,803
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: Capital outlay	93,665
Deduct: Depreciation expense	(237,640)
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	
Add: Principal paid on capital lease	95,805
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: Interest income from governmental internal service fund	1,886
Change in net assets of governmental activities	($36,481)

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COMMUNITY MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Assets		
Due From Other Funds	$132,120	$129,682
Net Assets		
Restricted For Risk Management	$132,120	$129,682
Total Liabilities And Net Assets	$132,120	$129,682

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COMMUNITY MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEARS ENDING SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Non-Operating Revenue		
Interest Income	$1,886	$1,357
Operating Transfers		
Operating Transfers Out - Abatement, General Fund	-	(24,299)
Net Income	1,886	(22,942)
Net Assets, Beginning of Year	129,682	152,624
Prior Period Adjustment	552	-
Net Assets, End of Year	$132,120	$129,682

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COMMUNITY MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEARS ENDING SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Adjustment To Reconcile Net Income To Net Cash Provided By Operating Activities:		
(Increase) Decrease In:		
Due From Other Funds, Net of Prior Period Adjustment	($1,886)	$22,942
Net Cash Provided (Used) From Operating Activities	(1,886)	22,942
Cash Flows From Investing Activities		
Non-Operating Revenue		
Interest Income	1,886	1,357
Cash Flows From Capital and Related Financing Activities		
Operating Transfers Out - Abatement, General Fund	-	(24,299)
Net Increase In Cash And Cash Equivalents	-	-
Cash And Cash Equivalents, October 1	-	-
Cash And Cash Equivalents, September 30	-	-
Reconciliation of Operating Income To Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Shiawassee County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Shiawassee who meet eligibility and other criteria. As the community mental health services provider for Shiawassee County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004 has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This 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 other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have any infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

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

Assets	Years
Vehicles	3
Equipment and Furnishings	5-7
Computers	3
Buildings and Improvements	10-40
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

The Authority has established a cash reserve for capital purposes. See other note for additional information.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for compensated absences and post-employment benefits are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Incurred But Not Reported Claims Liability

The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimates. The Authority may not be billed for these until several months after the date of services. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but is not limited to, retroactive consumer eligibility or cost recovery from other third party payors.

Deferred Revenue

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the budgetary funds were adopted at the functional level and have been presented at the functional level in this report.

During the year ended September 30, 2005, The Authority incurred expenditures in excess of the amounts budgeted, as shown on the budget comparison schedule in the back of this report as unfavorable variances.

NOTE 3 – DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash investments are as follows:

Cash and Cash Equivalents	2005	2004
Petty Cash	$1,670	$1,670
Checking, Savings, & Money Market Accounts	2,811,201	3,240,227
Cert. of Deposit Restricted For Compensated Absences	225,432	173,073
Restricted For Capital Purposes	359,189	542,571
Total	$3,397,492	$3,957,541

At September 30, 2005 the bank balance was $3,475,843. The difference between the bank balance and the carrying amount shown above is due to petty cash and outstanding deposits and checks. Of the bank balance, $200,000 was covered by federal depository insurance and $3,275,843 was uninsured and uncollateralized. Some of the deposits which exceed FDIC insurance coverage are held at local banks. The carrying amount shown above approximates its fair value.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Restricted Cash

The Authority has charged to the Department of Community Health, the vested portion of compensated absences as of September 30th. The Authority holds, in a separate bank account, funds set aside for the payment of compensated absences. The use of these funds is restricted to payment of compensated absences as they come due.

The Authority has established a reserve for capital purposes. See note for capital assets for additional information.

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Due from Other Governmental Units

Due from other governmental units as of September 30th, consists of the following:

Due From	2005	2004
State Of Michigan – OBRA PAS/ARR	$6,945	$7,500
Bay-Arenac Behavioral Health - Medicaid	1,585,791	1,497,433
Tuscola Behavioral Health Services - TBS	18,127	-
Shiawassee County	50,000	150,000
Saginaw CMH – DBT Training	20,000	-
Other	60,000	28,888
Total	$1,740,863	$1,683,821

Prepaids

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid Expenses	2005	2004
Insurance	$30,574	$111,715
Rent	23,477	23,241
Dues	9,027	9,049
Maintenance Agreements	6,331	14,758
Other	11,283	1,608
Total	$80,692	$160,371

Capital Assets

Depreciable capital assets activity for the year ended September 30, 2005 was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
CAPITAL ASSETS:				
Vehicles	$938,020	$63,814	$43,784	$958,050
Equipment & Furnishings	977,547	20,271	-	997,818
Computers	520,519	-	-	520,519
Buildings and Improvements	33,599	9,580	-	43,179
Sub-total	2,469,685	93,665	43,784	2,519,566
ACCUMULATED DEPR:				
Vehicles	(797,871)	(81,618)	(43,784)	(835,705)
Equipment & Furnishings	(888,190)	(38,888)	-	(927,078)
Computers	(353,066)	(113,295)	-	(466,361)
Buildings and Improvements	(9,363)	(3,839)	-	(13,202)
Sub-total	(2,048,490)	(237,640)	(43,784)	(2,242,346)
NET CAPITAL ASSETS	$421,195	($143,975)	-	$277,220

Depreciation expense was charged to Health and Welfare – Mental Health Program.

The Authority has established a reserve for capital purposes, otherwise known in the Michigan Mental Health Code as funded depreciation. Amounts funded to this reserve are restricted for the purchase, replacement, or improvement of capital assets or the retirement of debt related to such capital purposes. The reserve was subsequently fully funded with revenue received for depreciation expense. The balance of this reserve as of September 30, 2005 and 2004 was $359,189 and $542,571, respectively.

Deferred Revenue

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

Deferred Revenue	2005	2004
State Of Michigan - DCH Risk Authorization	$53,589	$138,363
Capital Lease Proceeds	37,531	43,938
Other	10,814	2,062
Total	$101,934	$184,363

Due to Other Governmental Units

Due to other governmental units as of September 30th, consist of the following:

Due To	2005	2004
State Of Michigan – DCH State Facility	$105,867	$79,112
State Of Michigan – DCH Inpatient/Residential	-	138,107
Group Homes	-	227,196
AIS Overpayment	-	497,695
Total	$105,867	$942,110

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are related employer payroll taxes. In March of 2004 the board elected to become a Mental Health Authority and, as a result of that election, needed to decide whether to participate in social security or an alternative retirement plan. FICA and Medicare withheld during this time were held in an escrow account pending that decision. The following is a summary of this balance.

Liability	2005	2004
Accrued Wages	$193,460	$174,027
Accrued Payroll Taxes	14,306	13,027
FICA/Medicare Held in Escrow	950,141	321,837
Other	720	-
Total	$1,158,627	$508,891

Operating Leases

Shiawassee County Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements.

The following is a schedule of future minimum rental payments required under the operating leases for the next five fiscal years that have initial or remaining noncancelable lease terms as of September 30, 2005:

Year Ending September 30,	Amount
2006	$156,460
2007	128,336
2008	43,934
2009	43,934
2010	43,934
2011-2014	106,308

Long-term Debt

Compensated Absences

Employees earn paid time off (PTO) on a monthly basis. Employees in the Non-Supervisory Bargaining Unit are able to accumulate and carry forward 240 hours of PTO. Employees in the Supervisory Bargaining Unit, or who are not represented, are able to accumulate and carry forward 480 hours of PTO. All employees are able to be paid up to 120 hours of PTO per calendar year. Any accrued PTO is paid out upon termination of employment.

The accrued compensated absences liability at September 30, 2005 was $222,879.

Capital Lease

On November 27, 2002 the Authority entered into a lease agreement with Team Financial Group for the purpose of financing the purchase and installation of computer hardware and software as well as training and support services during the life of the lease agreement. The total amount financed was $375,000 and the terms call for 48 monthly payments of $9,085.

Only $324,952 of the total proceeds was disbursed during the year ended September 30, 2003. An additional $6,110 and $6,407 was disbursed during the years ended September 30, 2004 and 2005, respectively. Therefore, the remaining balance of $37,531was deferred until the funds are disbursed in the following year.

The changes in the above lease are as follows:

Beg. Bal. 10/01/04	Additions	Reductions	End. Bal. 9/30/05
$217,150	-	$95,805	$121,345

The annual debt service payment for the remaining life of the lease (including interest totaling $4,845) is as follows:

Year Ended September 30th,	Principle and Interest Due
2006	$109,020
2007	18,170

Prior Period Adjustment

Prior period adjustments shown in the Statement of Activities in this report represents the adjustment to net assets due to the following:

Adjustment	2005	2004
Cost Settlement Adjustment FYE 9/04	($241,892)	-
Cost Settlement Adjustment FYE 9/03	(117,239)	-
Cost Settlement – AIS – FYE 9/98	497,695	-
Adjustment to General Fund Carry Forward – FYE 9/04	(81,505)	-
Reimbursement To Consumer	(525,545)	-
Total Increase (Decrease) To Net Assets	($468,486)	-

Net Asset / Fund Balance Reserves and Designations

A portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

A portion of net assets / fund balance ($359,189) has been designated by the Authority to be used for future improvements and/or acquisition of major capital assets.

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

NOTE 4 - OTHER INFORMATION

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

Pension Plan

Plan Description

The Authority is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides for the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty death allowance, duty death allowance, and post-retirement adjustments to plan members and their beneficiaries.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS 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 MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Prior to August 8, 1997, the Authority offered one defined benefit plan to all regular full and part time employees with the Municipal Employees Retirement System. The Plan provided a C-2 (B-1) benefit, which is defined as a 2% factor of final average compensation multiplied by credited service payable until attainment of the age at which unreduced Social Security benefits are available (age 65 for normal retirement). Upon attainment of this age, the benefit reverts to a 1.7% multiplier factor. The plan provided for normal retirement at age 60 with ten years of service credit.

Early retirement was available to employees who were 50 years of age with 25 years of service, or 55 years of age with 15 years of service. If early retirement was selected, the full retirement benefit was reduced by ½ of 1% for every month the employee was under age 60, unless the Authority adopted a resolution to waive the reduction in retirement benefits.

Effective August 8, 1997, the Authority approved an additional plan in the Municipal Employees Retirement System for Supervisory Bargaining Unit employees which are comprised of all managerial and senior administrative staff. The plan provides a B-2 benefit, which is defined as a 2% factor of final average compensation multiplied by the credited service payable for the entire retirement period. The definitions of normal and early retirement remain the same as those noted above.

Effective October 30, 1997, the Authority approved a change in benefits for all employees not covered in the Supervisory Bargaining Unit plan. Instead of requiring ten years of vesting to be eligible for benefits, the plan now requires six years of service for benefit eligibility. The plan definitions for ages of normal and early retirement continue to remain the same. Required credited years of service also remain the same for the employees opting early retirement.

Effective September 25, 2000, the Authority approved a change in benefits for all employees not covered in the Supervisory Bargaining Unit Plan. Instead of C-2 (B-1) V6, the plan is B-2 V6 for employees hired on or before September 25, 2000 and B-2 V10 for employees hired after September 25, 2000.

Funding Policy

The pension expense for the year ending September 30, 2005 and 2004 was $403,415 and $398,900, respectively. This represents an actuarially determined charge for the Authority's pension costs. The Authority has no additional liability beyond these contributions.

The following information is for the County of Shiawassee.

GASB 25 INFORMATION (as of 12/31/04)

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	$30,810,304
Terminated employees not yet receiving benefits	4,829,977
Non-vested terminated employees	38,108
Current employees-	
Accumulated employee contributions including Allocated investment income	896,661
Employer financed	38,763,359
Total Actuarial Accrued Liability	$75,338,409
Net Assets Available for Benefits At Actuarial Value (Market Value is $45,312,757)	53,154,845
Unfunded (Overfunded) Actuarial Accrued Liability	$22,183,564

GASB 27 INFORMATION (as of 12/31/04)

Fiscal Year Beginning	January 1, 2006
Annual Required Contributions (ARC)	$2,861,352
Amortization Factor Used – Underfunded Liabilities (30 years)	.053632
Amortization Factor Used – Underfunded Liabilities (24 years)	.061616
Amortization Factor Used – Underfunded Liabilities (30 year level $)	.085453
Amortization Factor Used – Overfunded Liabilities (10 years)	.119963

Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority has purchased commercial insurance from independent insurance providers for professional liability. Settled claims, if any, for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

The Authority also participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further explained in the note below.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities. As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or each occurrence that falls within the member's self-insured retention.

If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits include $15,000,000 for liability and $1,500,000 for vehicle physical damage. The contribution made by the Authority to the MMRMA was $73,379 for the fiscal year ended September 30, 2005.

Managed Care Risk Contract

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

Post-Retirement Benefits

The Mental Health Authority provides post-retirement health care benefits to all employees who retire at age 65 and who are vested in the employer's retirement plan under the Municipal Employees Retirement System. A $275 deductible is to be paid by the retired employee. The benefits are funded on a pay-as-you-go basis.

Contingent Liabilities

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2005

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
REVENUES	Original	Final	Actual	
State Grants				
State General Fund - DCH Contract	$1,622,000	$1,667,066	$1,682,185	$15,119
Adult Benefit Waiver	286,000	229,060	231,265	2,205
MI Child	14,000	13,064	13,107	43
Tobacco Tax	6,000	10,385	10,214	(171)
Homeless Housing	4,500	2,525	2,315	(210)
Title XX	7,277	7,277	7,277	-
Total State Grants	1,939,777	1,929,377	1,946,363	16,986
Federal Grants				
Wraparound	87,000	92,868	87,461	(5,407)
Mental Health Block Grant	-	81,818	75,000	(6,818)
PAS / ARR	31,000	14,105	13,729	(376)
Total Federal Grants	118,000	188,791	176,190	(12,601)
Contributions - Local Units				
County Appropriations	200,000	199,999	200,000	1
Total Contributions - Local Units	200,000	199,999	200,000	1
Charges For Services				
Medicaid - Affiliate Contract	9,583,000	9,880,031	9,847,441	(32,590)
Client And Third Party Pay	278,675	189,299	188,364	(935)
Total Charges For Services	9,861,675	10,069,330	10,035,805	(33,525)
Interest And Rents				
Interest	31,100	21,775	55,545	33,770
Other Revenue	39,500	60,919	153,205	92,286
Total Revenues	12,190,052	12,470,191	12,567,108	96,917

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE YEAR ENDING SEPTEMBER 30, 2005

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
EXPENDITURES				
Health & Welfare - Mental Health				
Personnel Costs	$7,596,476	$7,157,312	$7,202,552	($45,240)
Operating Expenditures	4,247,318	5,458,514	4,988,328	470,186
Debt Service	-	13,522	109,021	(95,499)
Capital Outlay	-	-	93,665	(93,665)
Total Expenditures	11,843,794	12,629,348	12,393,566	235,782
Excess Of Revenues Over Expenditures	346,258	(159,157)	173,542	332,699
Other Financing Sources (Uses)				
Operating Transfers In(Out) - Transfers To Affiliates	(163,740)	(163,740)	(163,739)	1
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	182,518	(322,897)	9,803	332,700
Fund Balance, October 1	3,590,220	3,590,220	3,590,220	-
Prior Period Adjustments	-	-	(469,038)	(469,038)
Fund Balance, September 30	$3,772,738	$3,267,323	$3,130,985	($136,338)

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Personnel Expenditures		
Salaries And Wages	$5,221,526	$5,186,137
Fringe Benefits	1,981,026	2,329,684
Total Personnel Expenditures	$7,202,552	$7,515,821

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Operating Expenditures		
Advertising	$5,181	$4,965
Books and Publications	2,645	2,329
Board Per Diem	12,665	10,829
Communications	65,509	73,787
Conferences	24,449	21,220
Contracted Services and Professional Fees	1,722,564	825,659
Consumer Activities & Services	36,843	10,921
Consumer Transportation	828	1,161
Clinical Programming Cost	-	25,888
Drugs / Pharmacy	-	8,891
Dues	12,798	23,439
Food and Consumables	-	6,618
Guardianships	-	1,484
Insurance and Bonds	74,685	72,619
Janitorial	17,412	9,515
Legal, Accounting, and Auditing	177,826	33,227
Medical Supplies	-	15,303
Miscellaneous	33,048	13,392
Local Fund Contribution	-	-
Office Supplies	57,547	48,925
Postage	12,265	11,867
Printing and Microfilm	172	1,544
Recruitment	7,853	8,621
Rent - Buildings	318,680	353,366
Rent - Equipment	854	110,267
Repairs and Maintenance - Building	45,683	46,804
Repairs and Maintenance - Equipment	33,415	54,827
Residential Group Home Providers	957,195	1,149,986
Small Equipment and Furniture	10,371	11,788
State/Local Inpatient	1,068,097	652,094
Temporary Labor	133,414	35,896
Training	16,342	6,294
Travel - Board	7,070	4,275
Travel - Staff	25,229	28,129
Utilities	13,415	52,629
Vehicle Gas & Oil	48,677	29,883
Vehicle Repairs & Maintenance	45,596	42,316
Total Operating Expenditures	$4,988,328	$3,810,758

The notes to the financial statements are an integral part of this statement.

CERTIFIED PUBLIC ACCOUNTANTS

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

Shiawassee County Community Mental Health Services Authority
Owosso, Michigan

We have audited the financial statements of the governmental activities and each major fund of Shiawassee County Community Mental Health Services Authority (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon, dated March 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

ROSLUND, PRESTAGE & COMPANY, P.C.
308 GRATIOT AVENUE • ALMA • MICHIGAN • 48801
PHONE: 989-463-6123 • FAX: 989-463-4055

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 that are required to be reported under *Government Auditing Standards.*

However, we noted certain matters that we have reported to management of the Authority in a separate letter dated March 17, 2006.

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

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

March 17, 2006

CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

Shiawassee County Community Mental Health Authority
Owosso, Michigan

In planning and performing our audit of the financial statements for Shiawassee County Community Mental Health Authority for the fiscal year ended September 30, 2005, we considered the internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated March 17, 2006 on the financial statements of Shiawassee County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the accounting and administrative staff for their support and assistance during our audit.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

March 17, 2006

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GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions,* was approved by the GASB in June of 2005. Other post-employment benefits are defined as post-employment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all post-employment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other post-employment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future post-employment benefits packages.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.

Checklists, Narratives, and Flowcharts

In order to ensure that all accounting procedures are performed on a timely basis, we recommend that comprehensive checklists be prepared to be used by all staff, as necessary. These checklists should cover all procedures that need to be performed on a periodic basis.

We also recommend that all procedures performed be documented in writing in the form of narratives. In addition to the narratives, flowcharts can be helpful in communicating procedures performed and documentation requirements in a format that is easy to read and it will help to see the "flow" of activity. These checklists, narratives, and flowcharts can then be incorporated into a procedures manual.

Final Grant Billings

During our review of the Wraparound Grant we found that the final billing was not completed until February 2006. We recommend that management review its policies and procedures regarding all grant billings and make the necessary changes to assure that the final billings are made in a timely manner.

Develop an Accounting Policies and Procedures Manual

We recommend that management establish a standard accounting and operating procedures manual outlining policies to be followed. The preparation and maintenance of written standard procedures is very useful to do the following:

- Establish consistent practices.
- Fix accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to policies.
- Aid in exchange of management ideas.
- Provide the Authority with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees, especially in the event of an untimely resignation of key accounting staff.

The manual should include, along with a chart of accounts, detailed explanations of account content, appropriate descriptions of all accounting procedures and routines, and definitions of job authority and responsibility.

Rent Reimbursements

During our review of receivables we found that $60,000 in rent reimbursements had not been received from network providers due to the fact that they had not been billed. The rent agreement reflected a monthly rate, however it appears that payment was not to be made unless billed.

We recommend that the rental agreements indicate that the monthly rent is expected to be paid monthly without the necessity for a monthly billing. Any late payments should be investigated and appropriate action taken to ensure collection on a timely basis.