

Auditing Procedures Report

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

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Mid-Michigan District Health Department	County Montcalm
Audit Date 9/30/05	Opinion Date 1/26/06	Date Accountant Report Submitted to State: 3/14/06	

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:

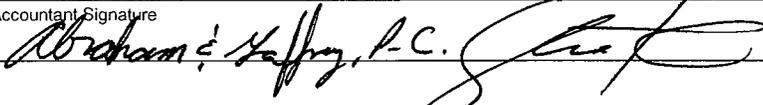
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

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.

- | | | |
|------------------------------|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> 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. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> 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]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> 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). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> 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). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> 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) Abraham & Gaffney, P.C.			
Street Address 3511 Coolidge Road, Suite 100	City East Lansing	State MI	ZIP 48823
Accountant Signature 		Date 3/8/06	

**Mid-Michigan District Health Department
Stanton, Michigan**

FINANCIAL STATEMENTS

September 30, 2005

Mid-Michigan District Health Department

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INDEPENDENT AUDITOR'S REPORT

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Mid-Michigan District Health Department, a component unit of Montcalm County, Michigan as of and for the year ended September 30, 2005, which collectively comprise the Department's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Mid-Michigan District Health Department as of September 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 26, 2006, on our consideration of the Mid-Michigan District Health Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying other supplementary information and 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 Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 26, 2006



Mid-Michigan District Health Department

Your Public Health Experts; Connecting with the Community and Exceeding Expectations

615 N. State St., Suite 2, Stanton, MI 48888 - 989.831.5237 - fax 989.831.5522 - www.mmdhd.org

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2005

The Mid-Michigan District Health Department is in its third year of implementing the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Department's financial performance during the fiscal year ended September 30, 2005, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Department's financial statements.

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

Financial Highlights

- The assets of the Department exceeded its liabilities at September 30, 2005, by \$1,110,247 at the government-wide level. Of this amount, \$897,944 (unrestricted net assets) may be used to meet the Department's ongoing obligations.
- The Department's total net assets decreased \$33,726 as a result of this year's operations.
- As of September 30, 2005, the Department's governmental fund reported an ending fund balance of \$1,207,920, an increase of \$125,588. This \$125,588 increase was composed of a \$40,716 surplus of revenues over expenditures, and \$84,872 in deferred revenue adjustments related to the agency's improved timing of fee revenue collection efforts.
- As of September 30, 2005, the unreserved and undesignated fund balance was \$145,219.

Overview of the Financial Statements

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

Government-wide Financial Statements: The government-wide financial statements provide information about the activities of the entire Department. They present an overall view of the Department's finances, reporting the assets and liabilities on fiscal year ending September 30, 2005.

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

The statement of activities presents information showing how the government's net assets changed during fiscal year 2004/05. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

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

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

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

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

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

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

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

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 7-15 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 16. Other supplementary information concerning expenditures of federal awards can be found on pages 17-24 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of Mid-Michigan District Health Department, assets exceeded liabilities by \$1,110,247. A comparative analysis of data with the previous fiscal year is as follows:

	<u>2004</u>	<u>2005</u>
Current assets	\$ 1,764,551	\$ 1,684,966
Noncurrent assets	<u>259,593</u>	<u>212,303</u>
Total assets	2,024,144	1,897,269
Current liabilities	619,926	504,043
Noncurrent liabilities	<u>260,245</u>	<u>282,979</u>
Total liabilities	<u>880,171</u>	<u>787,022</u>
Net assets		
Invested in capital assets	259,593	212,303
Unrestricted	<u>884,380</u>	<u>897,944</u>
Total net assets	<u>\$ 1,143,973</u>	<u>\$ 1,110,247</u>

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) increased by \$13,564. This represents an increase of approximately 2 percent. Net assets invested in capital assets, net of related debt, decreased by \$47,290. This represents a decrease of approximately 18 percent. The current level of unrestricted net assets for our governmental activities stands at \$897,944, or approximately 16 percent of annual expenses. This is within our desired range.

The following table shows the changes of net assets for the years ended September 30, 2004 and 2005.

	<u>2004</u>	<u>2005</u>
Program revenues		
Charges for services	\$ 1,363,949	\$ 1,484,683
Operating grants and other/contributions	3,135,780	2,992,275
General revenue		
County appropriations	1,129,824	1,168,655
Cigarette tax	71,447	68,323
Interest	<u>4,487</u>	<u>16,599</u>
 Total revenues	 5,705,487	 5,730,535
 Program Expenses	 <u>5,601,921</u>	 <u>5,764,261</u>
 Change in net assets	 <u>\$ 103,566</u>	 <u>\$ (33,726)</u>

For the year ended September 30, 2005, operating grants and contributions decreased \$143,505 mainly due to decreased funding for Emergency Preparedness and other categorical grants contributed by the State of Michigan as revenue.

Total expenses increased approximately 3% over last year, primarily related to normal economic cost increase factors.

Financial Analysis of the Government's Fund

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

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

As of the end of the current fiscal year, the Mid-Michigan District Health Department's governmental fund reported an ending fund balance of \$1,207,920; an increase of \$125,588 in comparison with the prior year. Of this total, \$82,872 has been reserved for prepaid expenditures and trust funds. There has been \$353,724 designated for vacation and personal leave; \$115,394 designated for equipment and technology; \$308,830 designated for retirement; and \$201,881 designated for other purposes. The unreserved and undesignated fund balance at September 30, 2005 was \$145,219.

As a measure of the governmental fund's liquidity, it may be useful to compare unreserved (designated and undesignated) fund balance, total fund balance, and unreserved-undesignated fund balance to total fund expenditures. Unreserved fund balance (\$1,124,347) and total fund balance (\$1,207,920) represent approximately 20 percent and 21 percent, respectively, of total fund expenditures. Unreserved-undesignated fund balance represents approximately 3 percent of total expenditures.

Governmental Fund Budgetary Highlights

Over the course of the year, the Mid-Michigan District Health Department's Board of Health may amend the budget to take into account events that occur during the year. For the year ended September 30, 2005, the only budget amendment primarily increased and decreased intergovernmental revenue and expense line items by minor amounts to maintain consistency with actual activities for the fiscal year. In total, the agency's amended budget only changed from \$5,901,793 to \$5,893,823.

Capital Asset and Debt Administration

Capital Assets: The Mid-Michigan District Health Department's investment in capital assets as of September 30, 2005, amounts to \$212,303 (net of accumulated depreciation).

Long-term Obligations: The Mid-Michigan District Health Department has a long-term obligation related to compensated absences (e.g., unused vacation and personal leave). The total liability for this long-term obligation at September 30, 2005, was \$353,724.

Economic Factors and Next Year's Budget and Rates

For the fiscal year ending September 30, 2006, close monitoring of State budget actions will continue to be important related to further possible cuts in funding provided through the Comprehensive Planning, Budgeting and Contracting (CPBC) agreement with the Michigan Department of Community Health. This level of funding has a significant impact on the types and levels of service this Local Public Health Department is able to provide.

Because the services of the Mid-Michigan District Health Department are provided based on need and not the ability to pay and the financial condition of the Mid-Michigan District Health Department is generally sound, the budget for the fiscal year ending September 30, 2006 included only normal economic increases in fees charged for services to the general public related to the corresponding increased operating costs to provide them.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

Mid-Michigan District Health Department

STATEMENT OF NET ASSETS

September 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 1,279,181
Accounts receivable	112,516
Due from other governmental units	
Federal/State	74,902
Local	42,547
Prepays	72,687
Inventories	<u>103,133</u>
Total current assets	1,684,966
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>212,303</u>
TOTAL ASSETS	1,897,269
LIABILITIES	
Current liabilities	
Accounts payable	62,790
Accrued wages	123,766
Other accrued liabilities	92,310
Deferred revenue	154,432
Current portion of compensated absences	<u>70,745</u>
Total current liabilities	504,043
Noncurrent liabilities	
Noncurrent portion of compensated absences	<u>282,979</u>
TOTAL LIABILITIES	<u>787,022</u>
NET ASSETS	
Invested in capital assets	212,303
Unrestricted	<u>897,944</u>
TOTAL NET ASSETS	<u><u>\$ 1,110,247</u></u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Assets
				Governmental Activities
Governmental activities				
Personal health	\$ 3,092,788	\$ 443,124	1,796,239	\$ (853,425)
Environmental health	1,641,321	596,120	699,499	(345,702)
Dental health	617,330	372,678	231,199	(13,453)
Administration	76,254	41,461	-	(34,793)
Other	336,568	31,300	265,338	(39,930)
Total governmental activities	<u>\$ 5,764,261</u>	<u>\$ 1,484,683</u>	<u>\$ 2,992,275</u>	(1,287,303)
General revenues				
Interest				16,599
County appropriations				
Regular				982,902
Other				185,753
Cigarette tax				68,323
Total general revenues				<u>1,253,577</u>
Change in net assets				(33,726)
Net assets, beginning of the year				<u>1,143,973</u>
Net assets, end of the year				<u>\$ 1,110,247</u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department
GOVERNMENTAL FUND BALANCE SHEET

September 30, 2005

	Special Revenue
ASSETS	
Cash	\$ 1,279,181
Accounts receivable	112,516
Due from other governmental units	
Federal/State	74,902
Local	42,547
Prepays	72,687
Inventories	103,133
TOTAL ASSETS	\$ 1,684,966
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 62,790
Accrued wages	123,766
Other accrued liabilities	92,310
Deferred revenue	198,180
TOTAL LIABILITIES	477,046
FUND BALANCE	
Reserved for	
Prepays	72,687
Trust funds	10,185
Unreserved - designated for	
Vacation and sick leave	353,724
Equipment and technology	115,394
Self-insurance bonds	12,469
Retirement	308,830
Unemployment	10,000
Training	10,000
Facility development	165,716
Donated leave	3,696
Unreserved - undesignated	145,219
TOTAL FUND BALANCE	1,207,920
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,684,966

See accompanying notes to financial statements.

Mid-Michigan District Health Department

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

September 30, 2005

Total fund balance - governmental fund \$ 1,207,920

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

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

The cost of capital assets is	\$ 545,719	
Accumulated depreciation is	<u>(333,416)</u>	212,303

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

Deferred revenue		43,748
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Compensated absences		<u>(353,724)</u>
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Net assets of governmental activities \$ 1,110,247

See accompanying notes to financial statements.

Mid-Michigan District Health Department

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

Year Ended September 30, 2005

	Special Revenue
REVENUES	
Licenses and permits	\$ 620,549
Intergovernmental	
Federal/State	2,626,395
Local	369,361
Charges for services	912,417
Interest and rents	16,599
Contributions	32,453
Other	5
	<hr/>
TOTAL REVENUES	4,577,779
EXPENDITURES	
Current	
Salaries and wages	3,180,545
Fringe benefits	964,281
Supplies and materials	667,801
Contractual	216,219
Communications	79,154
Travel and training	165,029
Insurance	51,957
Repairs and maintenance	17,577
Building and equipment lease and rentals	227,690
Printing and advertising	26,438
Postage	25,879
Other	31,653
Capital outlay	34,330
	<hr/>
TOTAL EXPENDITURES	5,688,553
	<hr/>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,110,774)
OTHER FINANCING SOURCES	
County appropriations - regular	982,902
County appropriations - other	185,137
Cigarette tax	68,323
	<hr/>
TOTAL OTHER FINANCING SOURCES	1,236,362
	<hr/>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	125,588
Fund balance, beginning of year	<hr/> 1,082,332
Fund balance, end of year	<hr/> <hr/> \$ 1,207,920

See accompanying notes to financial statements.

Mid-Michigan District Health Department

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

Year Ended September 30, 2005

Net change in fund balance - governmental fund \$ 125,588

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

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

Capital outlay	\$ 14,918	
Depreciation expense	<u>(62,208)</u>	
Excess of depreciation expense over capital outlay		(47,290)

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

(Decrease) in deferred revenue		(83,606)
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued compensated absences		<u>(28,418)</u>
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Change in net assets of governmental activities \$ (33,726)

See accompanying notes to financial statements.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

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

The Mid-Michigan District Health Department is a joint venture between Montcalm, Gratiot, and Clinton Counties, and was established to provide public health services. The District Health Board has representation and provides services to Montcalm, Gratiot, and Clinton Counties. Each County provides annual appropriations and passes through the statutory amounts of cigarette tax funding to subsidize operations. The current funding formula approved by the District Health Board requires Montcalm, Gratiot, and Clinton Counties to provide approximately 38, 26, and 36 percent, respectively. In addition, the treasury function for the District Health Department rests with the Montcalm County Treasurer. For this reason, the District Health Department is considered a component unit of Montcalm County for financial reporting purposes.

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

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Mid-Michigan District Health Department. The Department is considered a "joint venture" of Montcalm, Gratiot, and Clinton Counties.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

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

2. Basis of Presentation - continued

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

The major fund of the Department is:

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

3. Basis of Accounting

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

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

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

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

4. Budgets and Budgetary Accounting

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

5. Cash

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

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

6. Receivables and Deferred Revenue

Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations.

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

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

The change in deferred revenue has caused there to be a difference in the Department's budgeted change in fund balance compared to the actual reflected in the financial statements. See Management's Discussion and Analysis for further clarification.

7. Inventories

Inventories are stated at cost on a first in/first out basis. Inventory consists of vaccines received from the State of Michigan.

8. Capital Assets

Capital assets include equipment and land improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$1,000 or more, with estimated useful lives of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

Equipment	5 - 20 years
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The Department has no assets that would be classified as infrastructure assets.

9. Long-Term Obligations

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

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

10. Compensated Absences

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

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

11. Comparative Data

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

NOTE B: CASH

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

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

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

Deposits

The Department's bank deposits at September 30, 2005, are composed of the following:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ <u>-0-</u>	\$ <u>184,670</u>

Bank deposits of the Department are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Department. As of September 30, 2005, the Department's accounts were fully insured by the FDIC and NCUA.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE B: CASH - CONTINUED

The cash caption on the balance sheet includes \$7,298 in imprest cash and \$1,271,883 in cash that is on deposit with the Montcalm County Treasurer. The cash on deposit with the Montcalm County Treasurer is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these amounts cannot be determined.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Department has not adopted a policy that indicates how the Department will minimize credit risk if/when the Department has investments that are subject to this type of risk.

Interest rate risk

The Department has not adopted a policy that indicates how the Department will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time if/when the Department has investments that are subject to this type of risk.

Concentration of credit risk

The Department has not adopted a policy that indicates how the Department will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Department's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized if/when the Department has investments that are subject to this type of risk.

Custodial credit risk

The Department has not adopted a policy that indicates how the Department will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments of collateral securities that are in possession of an outside party if/when the Department has investments that are subject to this type of risk.

NOTE C: CAPITAL ASSETS

The following provides a summary of the changes in capital assets for the year ended September 30, 2005:

	<u>Balance</u> <u>Oct. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Sept. 30, 2005</u>
Governmental activities:				
Equipment	\$ 587,343	\$ 14,918	\$(56,542)	\$ 545,719
Less accumulated depreciation for:				
Equipment	<u>(327,750)</u>	<u>(58,076)</u>	<u>52,410</u>	<u>(333,416)</u>
Capital assets, net	<u>\$ 259,593</u>	<u>\$(43,158)</u>	<u>\$(4,132)</u>	<u>\$ 212,303</u>

Depreciation expense has been allocated to governmental functions as follows: Personal Health \$2,762, Environmental Health \$5,026, Dental Health \$7,607, Administration \$30,636 and Other \$12,045. Depreciation expense in the government-wide financial statements has been increased by \$4,132 to reflect the immaterial loss on disposal of capital assets in accordance with generally accepted accounting principles. This amount was reported in the Administration function.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Health Department for the year ended September 30, 2005:

	Balance Oct. 1, 2004	Additions	Deletions	Balance Sept. 30, 2005	Amounts due within one year
Accumulated compensated absences	\$ 325,306	\$ 28,418	\$ -0-	\$ 353,724	\$ 70,745

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

Accumulated Compensated Absences

Employees of the Mid-Michigan District Health Department are granted vacation leave in varying amounts based on length of service. Upon termination of employment, employees are paid accumulated vacation at full current rate of pay to a maximum of 30 days, and accumulated sick leave at a rate of 50% of hours accumulated up to a maximum of 480 hours (240 hours payable).

Accumulated vacation leave and personal pay represent a liability to the Department which is presented in a current and long term portion of the liability. Payments to employees for vacation leave and personal pay are recorded as expenditures when they are used and payments are actually made to the employees.

At September 30, 2005, the Department's total liability for vacation and sick pay amounted to \$353,724, of which \$70,745 has been classified as a current liability.

NOTE E: RETIREMENT PLAN

Plan Description

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

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Board of Public Health. The plan requires a contribution from the employees ranging from 0% to 2.75% of wages depending on the employee group covered. The Department is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended September 30, 2005, the Department's annual pension cost of \$291,913 for the plan was equal to the Department's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.0 % investment rate of return (b) projected salary increases of 4.5 % per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will increase 2.5% per year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over thirty (30) years.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE E: RETIREMENT PLAN - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 4,082,996	\$ 4,418,331	\$ 4,736,069
Actuarial accrued liability (AAL) (entry age)	4,653,671	5,060,456	5,280,923
Unfunded AAL	570,705	642,125	544,854
Funded ratio	88 %	87 %	90 %
Covered payroll	2,693,292	2,723,172	2,743,285
UAAL as a percentage of covered payroll	21 %	24 %	20 %

	Year Ended September 30,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 177,345	\$ 258,402	\$ 291,913
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

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

NOTE F: DEFERRED COMPENSATION

The Mid-Michigan District Health Department offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to substantially all Department employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans are administered through MetLife Resources, Royal Alliance, and Primary Shareholders Services, respectively.

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

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of public employees creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. As of September 30, 1999, the Department had implemented changes to be in compliance with the new requirement. As a result, the plan assets are not reported in the audited financial statements by the Department because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

The Mid-Michigan District Health Department also offers its employees a tax sheltered annuity plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to substantially all Department employees, permits them to make pre-tax contributions into various investment options. The Department has obtained non-profit exemption status under Internal Revenue Code Section 501(c)(3) thus allowing them to create the 403(b) plan. The plan is administered through MetLife Resources.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE G: RISK MANAGEMENT

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

The Department also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Department has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE H: NONCANCELABLE OPERATING LEASE OBLIGATIONS

The Mid-Michigan District Health Department has entered into a twenty-year, noncancelable long-term lease with NHF Sub Montcalm, a nonprofit organization, for the Montcalm branch office space. Rent expense for the year ended September 30, 2005 amounted to \$91,068.

Future minimum payments are as follows:

<u>Montcalm</u>	
2006	\$ 91,068
2007	91,068
2008	91,068
2009	91,068
2010	91,068
2011 and thereafter	<u>645,065</u>
TOTAL PAYMENTS	<u>\$ 1,100,405</u>

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS

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

The following are the fund balance reserves as of September 30, 2005:

Reserved for trust funds	\$ 10,185
Reserved for prepaids	<u>72,687</u>
	<u>\$ 82,872</u>

The following are the fund balance designations as of September 30, 2005:

Designated for equipment and technology	
Software upgrade	\$ 19,000
Future technology	42,394
Equipment	40,000
Laptops	2,000
Strategic planning	9,000
Administration office setup	<u>3,000</u>
	115,394

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2005

NOTE I: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

The following are the fund balance designations as of September 30, 2005 - continued:

Designated for self-insurance bonds	\$ 12,469
Designated for vacation and sick leave	353,724
Designated for retirement	308,830
Designated for unemployment	10,000
Designated for training	10,000
Designated for facility development	165,716
Designated for donated leave	<u>3,696</u>
	<u>\$ 979,829</u>

REQUIRED SUPPLEMENTARY INFORMATION

Mid-Michigan District Health Department

BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND

Year Ended September 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses and permits	\$ 494,806	\$ 424,000	\$ 620,549	\$ 196,549
Intergovernmental				
Federal/State	1,737,305	1,923,781	2,626,395	702,614
Local	726,201	714,097	369,361	(344,736)
Charges for services	1,635,364	1,549,173	912,417	(636,756)
Interest and rents	3,700	13,000	16,599	3,599
Contributions	38,500	33,000	32,453	(547)
Other	200	70	5	(65)
TOTAL REVENUES	4,636,076	4,657,121	4,577,779	(79,342)
EXPENDITURES				
Current				
Salaries and wages	3,228,667	3,227,667	3,180,545	47,122
Fringe benefits	997,189	991,675	964,281	27,394
Supplies and materials	811,975	762,824	667,801	95,023
Contractual	187,000	201,600	216,219	(14,619)
Communications	68,000	84,000	79,154	4,846
Travel and training	172,137	172,137	165,029	7,108
Insurance	52,000	53,000	51,957	1,043
Repairs and maintenance	15,800	18,000	17,577	423
Building and equipment lease and rentals	260,400	233,685	227,690	5,995
Printing and advertising	25,510	29,310	26,438	2,872
Postage	29,215	29,215	25,879	3,336
Other	53,900	42,910	31,653	11,257
Capital outlay	-	47,800	34,330	13,470
TOTAL EXPENDITURES	5,901,793	5,893,823	5,688,553	205,270
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,265,717)	(1,236,702)	(1,110,774)	125,928
OTHER FINANCING SOURCES				
County appropriations - regular	982,902	982,902	982,902	-0-
County appropriations - other	212,815	185,400	185,137	(263)
Cigarette tax	70,000	68,400	68,323	(77)
TOTAL OTHER FINANCING SOURCES	1,265,717	1,236,702	1,236,362	(340)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-0-	-0-	125,588	125,588
Fund balance, beginning of year	1,082,332	1,082,332	1,082,332	-0-
Fund balance, end of year	<u>\$ 1,082,332</u>	<u>\$ 1,082,332</u>	<u>\$ 1,207,920</u>	<u>\$ 125,588</u>

OTHER SUPPLEMENTARY INFORMATION

Mid-Michigan District Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE Passed through Michigan Department of Community Health Women, Infants and Children (WIC) FY 04-05 Regular	10.557	N/A	\$ 439,167	\$ 439,167
U.S. ENVIRONMENTAL PROTECTION AGENCY Passed through Michigan Department of Environmental Quality State Indoor Radon Grant FY 04-05 ^(a)	66.032	N/A	1,400	1,400
State Grants to Reimburse Operations of Small Water Systems for Training and Certification Cost FY 04-05	66.471	N/A	12,600	12,600
Capitalization Grants for Drinking Water State Revolving Funds FY 04-05	66.468	N/A	2,363	2,363
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through Michigan Department of Community Health Family Planning Services (Family Planning) ^(a) FY 04-05	93.217	N/A	120,773	120,773
Immunization Grants ^(c) FY 04-05 IAP	93.268	N/A	68,977	68,977
FY 04-05 Vaccine Handling		N/A	4,820	4,820
FY 04-05 Provider Site Visits ^(b)		N/A	7,400	7,400
FY 04-05 Vaccine Supply		N/A	393,949	393,949
FY 04-05 Nurse Education ^(b)		N/A	500	500
FY 04-05 Immunization AFIX ^(b)		N/A	<u>1,200</u>	<u>1,200</u>
			476,846	476,846

Mid-Michigan District Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED Passed through Michigan Department of Community Health - continued Centers for Disease Control and Prevention - Investigations and Technical Assistance FY 04-05	93.283		\$ 135,080	\$ 135,080
Focus A		N/A		
Focus B		N/A	66,234	66,234
Focus E		N/A	20,251	20,251
Focus F		N/A	28,714	28,714
Focus G		N/A	<u>15,059</u>	<u>15,059</u>
			265,338	265,338
Maternal and Child Health Services Block Grant to the States FY 04-05 Family Planning Services ^(a)	93.994		25,129	25,129
FY 04-05 Local MCH		N/A	88,254	88,254
FY 04-05 Case Management Services		N/A	21,998	21,998
FY 04-05 Oral Health		N/A	22,183	22,183
FY 04-05 SIDS ^(b)		N/A	<u>510</u>	<u>510</u>
			158,074	158,074
Passed through Michigan Family Independence Agency and Michigan Department of Community Health Medical Assistance Program FY 04-05 Medicaid Administration ^(a)	93.778		13,406	13,406
Case Management Services (CC-LBS)		N/A		
FY 04-05 Care Coordination ^(b)		N/A	2,880	2,880
FY 04-05 Care Coordination - Level I ^(b)		N/A	<u>652</u>	<u>652</u>
			16,938	16,938
HIV Prevention Activities - Health Department Based FY 04-05	93.940		<u>3,619</u>	<u>3,619</u>
			\$ <u>1,497,118</u>	\$ <u>1,497,118</u>
TOTAL FEDERAL AWARD EXPENDITURES				(d)

Mid-Michigan District Health Department

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2005

NOTE A: BASIS OF PRESENTATION

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

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

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

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

<u>Program</u>	<u>CFDA Number</u>	<u>Approximate Percent</u>
State Indoor Radon Grant	66.032	50.0 %
Family Planning	93.217	77.0
Family Planning	93.994	16.0
Medicaid Administration	93.778	50.0

- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes program tested as "major program".
- (d) The following reconciles the federal revenues reported in the September 30, 2005, fund financial statements to the expenditures of the Department administered federal programs reported on the Schedule of Expenditures of Federal Awards:

Federal/State Revenue (per financial statements)	\$ 2,626,395
<u>Less: Portions of grant funding considered "State" funding</u>	<u>(1,129,277)</u>
	<u>\$ 1,497,118</u>

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

We have audited the component unit financial statements of the Mid-Michigan District Health Department as of and for the year ended September 30, 2005, and have issued our report thereon dated January 26, 2006. 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 Mid-Michigan District Health Department'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.

Compliance and Other Matters

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

This report is intended for the information and use of the administration and Board of Public Health of Mid-Michigan District Health Department, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 26, 2006

East Lansing ▪ Rochester Hills ▪ St. Johns

Principals

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

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

Compliance

We have audited the compliance of the Mid-Michigan District Health Department with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major Federal program for the year ended September 30, 2005. The Mid-Michigan District Health Department's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program is the responsibility of Mid-Michigan District Health Department's management. Our responsibility is to express an opinion on Mid-Michigan District Health Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and 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 the Mid-Michigan District Health Department's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mid-Michigan District Health Department's compliance with those requirements.

In our opinion, the Mid-Michigan District Health Department complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Mid-Michigan District Health Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Mid-Michigan District Health Department's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the administration and Board of Public Health of Mid-Michigan District Health Department, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 26, 2006

Mid-Michigan District Health Department

SCHEDULE OF FINDINGS

Year Ended September 30, 2005

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements of the Mid-Michigan District Health Department.

There were no reportable conditions disclosed by the audit of the basic financial statements.

We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for the major program. We disclosed no findings regarding internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the Immunization Grants (CFDA 93.268) program. Total Federal expenditures for the year ended September 30, 2005, for the major program was \$517,608, which is approximately 34 percent of the total Federal Award expenditures. Based on the criteria of OMB Circular A-133, the Mid-Michigan District Health Department qualified as a low-risk auditee for the year ended September 30, 2005.

The dollar threshold for Type A programs of the Mid-Michigan District Health Department was \$300,000. Two (2) programs qualified as Type A: WIC (CFDA 10.557) and Immunizations (CFDA 93.268). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Condition Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

None

Findings Related to Compliance with Requirements to the Major Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Mid-Michigan District Health Department

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended September 30, 2005

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior reportable conditions

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

03-1 Vaccine Inventory

Immunization grants - FY 01-02, FY 02-03, and FY 03-04 - Passed through U.S. Department of Health and Human Services and the Michigan Department of Community Health.

As noted in the September 30, 2002, 2003, and 2004 Single Audits, the Department had findings related to vaccine inventory as detailed in the Noncompliance with Requirements Applicable to Federal Awards in Findings 02-1, 03-1, and as a prior audit finding follow-up as the program was not tested as a major in 2004. Based on our audit testing related to vaccine inventory tested in the current fiscal year as part of our major program compliance testing, it appears this audit finding is resolved.