Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

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

Local Unit of Government Type	Local Unit Name	County
☐ County ☐ City ☐ Twp ☐ Village ☒ Other	Bay-Arenac Behavioral Health	Bay

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
September 30, 2007	March 10, 2008	March 14, 2008

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☐	No comments for 2006/2007
Other (Describe)	☐	None

Certified Public Accountant (Firm Name)		Telephone Number	
Yeo & Yeo, PC		(989) 793-9830	
Street Address	City	State	Zip
3023 Davenport Avenue	Saginaw	MI	48602

Authorizing CPA Signature	Printed Name	License Number
Mari McKenzie	Mari McKenzie	10725

Bay-Arenac Behavioral Health

Bay City, Michigan

Annual Financial Statements,
Auditors' Report
and
Single Audit

September 30, 2007

YEO & YEO

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YEO & YEO

3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Independent Auditors' Report

Bay-Arenac Behavioral Health
Bay City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac Behavioral Health as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bay-Arenac Behavioral Health's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bay-Arenac Behavioral Health as of September 30, 2007 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2008, on our consideration of Bay-Arenac Behavioral Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac Behavioral Health's basic financial statements. The accompanying Substance Abuse Prevention and Treatment Schedules identified in the table of contents are presented for purposes of additional analysis as required by the Michigan Department of Community Health, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay-Arenac Behavioral Health's basic financial statements. The accompanying other supplemental 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
March 10, 2008

BAY-ARENAC BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2007

This section of the Bay-Arenac Behavioral Health (the Authority]) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2007. 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 auditors' report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The Authority is a Prepaid Inpatient Health Plan (PIHP) for a region consisting of Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority subcontracts for Medicaid services and supports with affiliated community mental health services programs (its Affiliates), including Huron Behavioral Health, the Montcalm Center for Behavioral Health, Shiawassee County Community Mental Health Authority and Tuscola Behavioral Health Systems.

State General Fund revenue and other grants and earned contracts continue to be sourced directly from the state and are exclusively related to Arenac and Bay counties. Additionally, the Authority is the designated regional substance abuse coordinating agency, operating as Riverhaven Coordinating Agency, a division of the Authority. The Authority receives Medicaid, state block grant, other federal and state grants and local funding for the provision of substance abuse services in Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties.

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 authority-wide financial statements and fund financial statements.

Authority-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 authority-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 expenditures.

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 authority-wide basis as of September 30, 2007 and 2006.

Summary of Net Assets

As of September 30, 2007 and 2006

(In $000s)

	2007	2006
Assets		
Current assets	$ 10,970	$ 11,876
Restricted assets	6,712	7,312
Capital assets	2,654	1,536
Total assets	**$ 20,336**	**$ 20,724**
Liabilities		
Current liabilities	$ 4,760	$ 7,374
Noncurrent liabilities	2,962	3,013
Total liabilities	**7,722**	**10,387**
Net assets		
Investments in capital assets	1,232	800
Restricted for capital purposes	876	533
Restricted for risk management	4,983	4,774
Restricted for community reinvestment	2,720	1,383
Restricted for substance abuse services	440	387
Unrestricted	2,363	2,460
Total net assets	**12,614**	**10,337**
Total liabilities and net assets	**$ 20,336**	**$ 20,724**

Current financial position is defined as the excess of current assets over current liabilities. When current assets exceed current liabilities this 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 $6.2 million, an increase of $1.7 million or 38%, 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.

Restricted assets consist of cash and cash equivalents. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of $6.7 million have decreased by .6 million or 8%.

Assets restricted for capital purposes (funded depreciation) were established in fiscal 2003. 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 2007, the Authority fully funded its annual depreciation expense of $338 thousand, which represents depreciation expense on assets purchased after October 1, 2002.

At year end, the Medicaid risk reserve balance was $5.0 million and is fully funded to its contractual maximum annual risk exposure of 7.5% of the funds at risk. At year-end, the balance in the state general fund (formula funds) risk management account was $0, which can be funded to cover the risk exposure for increases in demand and for placements into state facility inpatient facilities. The maximum allowable funding is determined by calculating the most recent 5 year average state facility inpatient demand spike.

Capital assets consist of property and equipment having an estimated useful life of more than one year. In fiscal 2007, $1.5 million was expended for capital acquisitions. Depreciation expense on previously existing and newly acquired capital assets was $343 thousand ($5 thousand representing depreciation on assets purchased prior to October 1, 2002 and $338 thousand representing depreciation on asset purchased October 1, 2002 and later). The net change in capital assets was an increase of $1.1 million 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 49.5% of the original book value, compared to 34.2% at the end of the prior year. 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 the liability for compensated absences and long-term debt. Compensated absences include vested earned time off (vacation and sick) obligations. Long-term debt consists of a mortgage obtained to purchase and renovate property on Madison Avenue.

Restricted net assets include amounts restricted for capital purposes (funded depreciation), community investment, risk management and substance abuse services. Related restricted assets were discussed above.

Also included in this category is $2.7 million of unspent Medicaid funds restricted for community investment (for mental health and developmental disability) and $441 thousand unspent liquor tax proceeds restricted for substance abuse services in their county of origin. These funds are typically spent the next year.

Unrestricted net assets at the end of the year were $2.4 million, a decrease of $97 thousand or 4% for the year. Unrestricted net assets were 11.6% of total assets, down from 12% from the prior year.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2007 and 2006.

Summary of Activities

For the years ended September 30, 2007 and 2006

(In $000s)

	2007	2006
Revenue		
Medicaid specialty supports and services		
Arenac and Bay counties	$ 32,890	$ 29,873
Counties under affiliate subcontracts	32,526	32,815
Regional Substance Abuse	1,018	972
State General Fund priority populations	3,822	4,466
Adults Benefit Waiver	475	454
State substance abuse block grants	2,179	2,081
Program service revenue	131	128
Grants and earned contracts	3,742	3,550
County appropriation	787	774
Affiliate local funds contributions	710	710
Liquor tax revenue	584	545
Interest income	917	765
Other local income	88	113
Total revenue	**79,869**	**77,246**
Expense		
Personnel expense	12,812	13,535
Operating expense	30,206	28,761
Affiliate subcontract expense	32,574	32,815
Local funds contributed to State	1,255	1,255
FYES 01 & 02 audit settlement	402	-
Depreciation	343	272
Total expense	**77,592**	**76,638**
Change in net assets	**$ 2,277**	**$ 608**

Excess of revenue over expenses from activities for the current year was $2.3 million or 2.9% of revenue.

Revenue for the year was $79.9 million, an increase of $2.6 million or 3.4% from the prior year.

Medicaid specialty supports and services revenue of $66.4 million represents 83.2% of total revenue and increased $2.8 million or 4.4% compared to the prior year.

State general fund priority population revenue (formula funding) of $4.3 million represents 5.4% of total revenue and decreased $623 thousand or 12.7% compared to the prior year. This funding 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 was no prior year deferred revenue, no lapse of state general funds to MDCH in the current year nor was there a carryforward of state general funds.

Program service revenue of $131 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent .2% of total revenue and have increased $3 thousand or 2.3% over the prior year.

Grants and earned contract revenue of $3.7 million includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 4.7% of total revenue and have increased $192 thousand or 5.4% over the prior year.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 2.2% of revenue and have increased $140 thousand or 8.5% over the prior year.

Total expense of $77.6 million has increased $1 million or 1% compared to the prior year.

Personnel expense of $12.8 million is 16.5% of total expense and has decreased $723 thousand or 5.3%.

Operating expense of $30.2 million is 38.9% of total expense and has increased $1.4 million or 5.0%.

BUDGETARY HIGHLIGHTS

The original budget for General Fund revenue was based off of fiscal year 2005-06 contract information. The final budget decreased $428,000 which represents a reduction in funding from MDCH for decreases in State Facility rates.

The final budget for Substance Abuse was over the original budget by $372,000. This represents an increase in the base amount of Block Grant funding received from the Office of Drug Control Policy in addition to 2 grants that were approved after the original budget was developed.

The final budget for Medicaid revenue was $2.4 million over the original budget, which was based off of FY 2005-06 payments. The final budget included additional funding related to capitation rate adjustments for the affiliation, issued by the Department of Community Health.

Capital outlays were not in the original budget. The final budget contained $1.4 million. Actual outlays related to Information Systems were $138,000 more than the final budget.

The final budget for personnel costs was $509,000 more than actual expenditures. This difference is $347,000 related to salaries budgeted for vacant positions that did not get filled and $190,000 in health insurance savings related to a new plan that took effect January 1, 2007.

Revenue/Expenditure Line Item	Original Budget	Final Budget	Final Over (Under) Original Budget
General Fund Revenue	$4,252,632	$3,824,995	($427,637)
Substance Abuse Revenue	1,824,217	2,196,579	372,362
Medicaid - DCH Contract Revenue	63,960,000	66,397,139	2,437,139
Capital Outlay	-	1,370,263	1,370,263

Revenue/Expenditure Line Item	Final Budget	Actual	Actual Over (Under) Final Budget
Personnel costs	$13,296,163	$12,786,676	($509,487)
Capital outlay	1,370,263	1,508,143	137,880

FUTURE OUTLOOK

The state of Michigan continues to struggle in efforts 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.

Management expects revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Authority is currently healthy, the economic environment will continue to put pressure on the Authority's ability to meet the service and support needs of its constituents.

* * * * * * *

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

Bay-Arenac Behavioral Health
Statement of Net Assets
September 30, 2007

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	$ 8,484,307
Investments	663,274
Accounts receivable, net	311,201
Interest receivable	84,469
Due from other governmental units	909,774
Prepaid items	516,967
Total current assets	10,969,992
Noncurrent assets	
Cash and cash equivalents - restricted	6,711,978
Capital assets - nondepreciable	248,500
Capital assets - depreciable, net	2,405,545
Total noncurrent assets	9,366,023
Total assets	20,336,015
Liabilities	
Current liabilities	
Accounts payable	2,778,822
Accrued wages and other payroll liabilities	605,869
Due to other governmental units	893,978
Due to DCH - FYEs 01 & 02 audit settlement	402,471
Current portion of long-term debt	76,428
Deferred revenue	2,236
Total current liabilities	4,759,804
Noncurrent liabilities	
Long term debt, net of current portion	1,345,660
Compensated absences	1,616,290
Total noncurrent liabilities	2,961,950
Total liabilities	7,721,754
Net assets	
Invested in capital assets, net of related debt	1,231,957
Restricted for capital purposes	876,133
Restricted for community investment	2,719,723
Restricted for risk management	4,982,579
Restricted for substance abuse services	440,571
Unrestricted	2,363,301
Total net assets	$ 12,614,261

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health
Statement of Activities
September 30, 2007

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes Net Assets
Governmental activities				
Health and Welfare - Mental Health	$ 77,521,571	$ 69,714,135	$ 7,083,249	$ (724,187)
Interest on long-term debt	71,045	-	-	(71,045)
Total expenses	$ 77,592,616	$ 69,714,135	$ 7,083,249	(795,232)
General revenues				
Grants and contributions not restricted to specific programs				2,107,829
Unrestricted investment earnings				669,819
Restricted investment earnings				246,531
Miscellaneous revenues				48,185
Total general revenues and contributions				3,072,364
Change in net assets				2,277,132
Net assets - beginning of year				10,337,129
Net assets - end of year				$ 12,614,261

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health
Governmental Funds
Balance Sheet
September 30, 2007

	General Fund
Assets	
Cash and cash equivalents	$ 8,484,307
Investments	663,274
Accounts receivable, net	311,201
Interest receivable	45,178
Due from other governmental units	909,774
Prepaid items	516,967
Cash and cash equivalents - restricted	1,768,689
Total assets	$ 12,699,390
Liabilities	
Accounts payable	$ 2,778,825
Accrued wages and other payroll liabilities	605,869
Due to other governmental units	893,978
Deferred revenue	2,236
Total liabilities	4,280,908
Fund balances	
Reserved for capital purposes	876,133
Reserved for prepaid items	516,967
Reserved for community investment	2,719,723
Reserved for compensated absences	1,616,290
Reserved for substance abuse	440,571
Reserved for long term debt	1,422,088
Unreserved	826,710
Total fund balances	8,418,482
Total liabilities and fund balances	$ 12,699,390

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
September 30, 2007

Total fund balance - governmental funds	$ 8,418,482
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	5,361,522
Deduct: accumulated depreciation	(2,707,477)
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	4,982,579
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: long-term debt	(1,422,084)
Deduct: compensated absences	(1,616,290)
Deduct: FYEs 01 & 02 audit settlement	(402,471)
Net assets of governmental activities	$ 12,614,261

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
September 30, 2007

Revenues	
State grants	
State General Fund - DCH Contract	$ 3,821,644
Adults Benefit Waiver - DCH Contract	474,527
Substance Use Disorder Treatment	2,179,349
Title XX	21,320
Other state revenues	95,481
Total state grants	6,592,321
Federal and State grants	512,248
Contributions - local units	
County appropriations	787,054
Affiliate contributions	710,279
PA 2 liquor tax	584,136
Total contributions - local units	2,081,469
Charges for services	
Medicaid - DCH contract	66,434,380
Medicaid - other	131,493
Client and third party pay	113,876
Other earned contract revenue	3,000,134
Total charges for services	69,679,883
Interest and rents	
Interest	669,819
Other revenue	87,477
Total revenues	79,623,217

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health
Statement of Revenues, Expenditures and Changes In Fund Balances
Governmental Funds
September 30, 2007

Expenditures	
Health and Welfare - Mental Health	
Current:	
Personnel costs	$ 12,786,676
Operating expenditures	63,987,388
Capital outlay	1,508,143
Debt service payments	72,810
Total expenditures	78,355,017
Revenues over expenditures	1,268,200
Other financing sources (uses)	
Transfers to Internal Service Fund	38,438
Net change in fund balance	1,306,638
Fund balance, beginning of year	7,111,844
Fund balance, end of year	$ 8,418,482

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health
Reconciliation of the Statement of Revenues, Expenditures and Changes
In Fund Balances of Governmental Funds
to the Statement of Activities
September 30, 2007

Net change in fund balances - total governmental funds	$ 1,306,638
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	1,508,143
Deduct: depreciation expense	(343,371)
Deduct: loss on disposal	(47,484)
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 funds	246,531
Add: transfers from General Fund	(38,438)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: principal repayments	72,810
Less: increase in accrual for compensated absences	(25,226)
Less: FYEs 01 & 02 audit settlement	(402,471)
Change in net assets of governmental activities	$ 2,277,132

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health
Proprietary Fund
Statement of Net Assets
September 30, 2007

	Governmental Activities Internal Service Funds
Assets	
Current assets	
Interest receivable	$ 39,290
Noncurrent assets	
Cash and cash equivalents - restricted	4,943,289
Total assets	4,982,579
Liabilities	-
Net assets	
Restricted for risk management	$ 4,982,579

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health
Proprietary Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
September 30, 2007

	Governmental Activities Internal Service Funds
Non-operating revenues	
Interest income	$ 246,531
Transfer to General Fund	(38,438)
Change in net assets	208,093
Net assets, beginning of year	4,774,486
Net assets, end of year	$ 4,982,579

The Notes to the Financial Statements are an integral part of this statement.

Bay-Arenac Behavioral Health
Proprietary Fund
Statement of Cash Flows
September 30, 2007

	Governmental Activities Internal Service Funds
Cash flows from noncapital financing activities	
Transfer to General Fund	$ (38,438)
Cash flows from investing activities	
Interest received	208,213
Net increase in cash and cash equivalents	169,775
Cash and cash equivalents, beginning of year	4,773,514
Cash and cash equivalents, end of year	$ 4,943,289

The Notes to the Financial Statements are an integral part of this statement.

Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of Bay-Arenac Behavioral Health have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the Authority's significant accounting policies:

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, and children with serious emotional disturbance. These supports and services are made available to residents of Arenac and Bay counties who meet eligibility and other criteria. As the community mental health services program for Arenac and Bay counties, 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 the public interest.

The Authority was designated by the Michigan Department of Community Health as the Medicaid Prepaid Inpatient Health Plan (PIHP) for its affiliation regional service area including Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority arranges for or provides supports and services for Medicaid-eligible persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. To fulfill its obligation under this designation, the Authority subcontracts with its other community mental health services program affiliates, specifically:

- Huron Behavioral Health,
- Montcalm Center for Behavioral Health,
- Shiawassee County Community Mental Health Agency, and
- Tuscola Behavioral Health Systems

Further, the Authority was designated by the Michigan Department of Community Health as the substance abuse coordinating agency operating as Riverhaven Coordinating Agency, a division of the Authority. The regional coordinating agency has responsibility for a service area that includes Arenac, Bay, Huron, Montcalm, Shiawassee and Tuscola counties. The Authority arranges supports and services for individuals with addictive disorder and substance abuse who meet eligibility and other criteria. To fulfill its obligation under this designation, the Authority subcontracts with a network of substance abuse providers.

In accordance with accounting principles generally accepted in the United States of America these financial statements present all of the Authority's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has no component units.

Government-wide 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 are normally 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.

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 grantor 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.

Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2007, 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.

Fund Accounting
The financial activities of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Authority uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

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 account 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 restricted for risk management which have been set aside to fund the net uninsured exposure of potential shortfalls of Michigan Department of Community Health risk contract revenues.

Budgetary Data
The Authority's general fund budget is under formal budgetary control and follows both the Authority's and Michigan Department of Community Health's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America and the requirements of the Michigan Department of Community Health. All appropriations lapse at year end.

Cash and Cash Equivalents
The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and/or certificates of deposit and commercial paper which matures within 90 days.

A specific amount of cash has been restricted for future payments of compensated absences, depreciation reserve and risk management reserve.

Investments
The Authority's investments are considered to be certificates of deposit which are valued at cost and commercial paper which is valued at cost if it matures within one year of date of purchase. If the commercial paper has a maturity date over one year at date of purchase it is then valued at fair value.

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 PIHP affiliates.

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.

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.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Capital Assets
Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Authority as individual assets with an initial cost equal to or more than $5,000 for acquisitions on or after October 1, 2002 and $1,000 for acquisitions before October 1, 2002 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if actual cost is not available. 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 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.

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
Equipment and furnishings	5
Computers	3-5
Vehicles	5
Leasehold improvements	7-30
Buildings	40
Software development	3

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 estimate. The Authority may not be billed for these until several months after the date of service. 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 are not limited to, retroactive consumer eligibility or cost recovery from other third party payers.

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.

Compensated Absences
Authority policy allows full time employees to accumulate earned time off at various rates, depending on the employees' length of service with the Authority. Governmental fund financial statements record expenditures when employees are paid for these compensated absences. The government-wide financial statements record expenditures and the related liability when these compensated absences are earned by employees.

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 are examples of the latter.

Note 2 - Deposits and Investments

The Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	$ 8,484,307
Investments	663,274
Cash and cash equivalents - restricted	6,711,978
Total	$ 15,859,559

The breakdown between deposits and investments for the Authority is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	$ 11,204,445
Investments	4,655,114
Total	$ 15,859,559

As of September 30, 2007 the Authority had the following investments:

Investment	Maturities	Fair Value	Cost
Commercial Paper	3 month average	$ 4,678,907	$ 4,655,114

Interest rate risk – The Authority manages its exposure to declines in fair value by maintaining a weighted average maturity of twelve months or less.

Credit risk – State statutes and the Authority's investment policy authorize 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 obligations 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.

Concentration of credit risk – The Authority's investment policy requires diversification by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than one-third of the total investment portfolio will be invested in a single security type or with a single financial institution.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Non-negotiable, non-collateralized certificates, as is the law in the State of Michigan, shall be evidenced by a safekeeping receipt from the issuing bank. As of September 30, 2007 $ 10,133,624 of the Authority's bank balance of $ 10,933,758 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2007 $1,659,274 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 3 - Interfund Transfers

The Authority transferred $ 38,438 of Medicaid dollars from the Internal Service Fund risk reserve to the General Fund (of the Authority) during the fiscal year. This transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements and Internal Service Fund risk reserve funding requirements as outlined in the managed care specialty supports and services program contracts.

Note 4 - Due from Other Governmental Units

Due from other governmental units as of September 30, 2007 consists of the following:

State of Michigan - Medicaid	$ 95,085
State of Michigan - other	120,253
Other governmental units	694,436
Total	$ 909,774

Note 5 - Capital Assets

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

	Balance October 1, 2006	Additions	Disposals and Adjustments	Balance September 30, 2007
Capital assets not being depreciated				
Land	$ -	$ 248,500	$ -	$ 248,500
Construction in progress	67,245	-	67,245	-
Subtotal	67,245	248,500	67,245	248,500
Capital assets, being depreciated				
Equipment and furniture	3,217,844	64,912	529,678	2,753,078
Buildings	736,380	1,058,071	248,500	1,545,951
Building improvements	-	28,025	-	28,025
Vehicles	325,478	124,212	-	449,690
Leasehold improvements	150,786	-	131,550	19,236
Software development	-	317,042	-	317,042
Subtotal	4,430,488	1,592,262	909,728	5,113,022
Accumulated depreciation				
Equipment and furniture	2,601,484	225,615	529,678	2,297,421
Buildings	9,205	22,317	-	31,522
Building improvements	-	1,685	-	1,685
Vehicles	279,535	29,512	-	309,047
Leasehold improvements	70,748	12,244	68,030	14,962
Software development	-	52,840	-	52,840
Subtotal	2,960,972	344,213	597,708	2,707,477
Total capital assets being depreciated, net	1,469,516	1,248,049	312,020	2,405,545
Total capital assets, net	$ 1,536,761	$ 1,496,549	$ 379,265	$ 2,654,045

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 purchase, replacement or improvement of capital assets or retirement of debt related to such capital purposes. The reserve was fully funded for depreciation expense. The balance of the reserve as of September 30, 2007 is $ 876,133.

Note 6 - Due to Other Governmental Units

Due to other governmental units as of September 30, 2007 consist of the following:

State of Michigan - inpatient residential care	$ 170,343
State of Michigan - cost settlement	90,078
State of Michigan - leases	33,146
State of Michigan - Quality Assurance Assessment Program (QAAP)	330,995
Other CMH Boards - Access Alliance	269,416
Total	$ 893,978

Note 7 - Long-Term Debt

Long-term debt consists of a mortgage payable and compensated absences. The mortgage is secured by real property acquired with the proceeds of the mortgage. The obligations can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Mortgage payable	$ 1,494,898	$ -	$ 72,810	$ 1,422,088
Compensated absences	1,591,064	25,226	-	1,616,290
	$ 3,085,962	$ 25,226	$ 72,810	$ 3,038,378

Maturities of the mortgage payable are as follows for the years ending September 30:

2008	$ 76,428
2009	80,226
2010	84,214
2011	88,399
2012	92,792
2013-2021	1,000,029
	$ 1,422,088

The entire vested amount of accrued compensated absences is considered long-term as the amount expended each year is expected to be offset by vacation time earned for the year.

Note 8 - Risk Management

Michigan Municipal Risk Management Authority (MMRMA)
The Authority participates in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and vehicle physical damage coverage.

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 costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

MMRMAs coverage limits are $15,000,000 for liability, $1,500,000 for vehicle physical damage, and $300,000,000 for combined aggregate property coverage. There is a $250 deductible per vehicle for vehicle physical damage and $250 per occurrence for property and crime.

Travelers Casualty and Surety Company of America
The Authority has crime coverage through Travelers Casualty and Surety Company of America. The coverage limit is $ 4,000,000. If a covered loss exceeds the coverage limit, all further payments for such loss are the sole obligation of the Authority.

Managed Care Risk Contracts
The Authority has managed care risk contracts with the State of Michigan for Medicaid Specialty Supports and Services and for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for these contracts with an Internal Service Fund risk reserve. The Authority holds the Medicaid risk contract and reserve for the region; including the service areas of its affiliates. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contracts provide 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 will occur if, in any one fiscal year, the Authority finds it necessary to expend more than current resources to provide contractually obligated supports and services for eligible individuals.

Note 9 - Defined Benefit Pension Plan

Plan Description – The Authority participates in the Bay County Employees' Retirement System (the Plan), a single-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Plan does not issue stand-alone financial statements and is included in the financial report of Bay County.

Basis of Accounting – The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of the Plan. Administrative costs are financed through investment earnings.

Funding Policy/Contributions – The Authority funds normal costs which are based on actuarially determined rates, expressed as percentages of annual covered payroll, and which are sufficient to accumulate assets to pay benefits when due. The provisions of the Plan require the Authority to contribute at an actuarially determined rate. Plan members contribute at a rate of 4 percent of their annual salary. Currently, the Authority pays the plan member contributions for the Authority employees, except for union negotiated contracts which pay their own contributions. Based upon the actuarial valuation dated December 31, 2006, the employer contributes at a rate of 2.53% of annual salaries for calendar year 2006 and at a rate of 3.24% of annual salaries for calendar year 2007. The contribution requirements of plan members are established and may be amended by the Authority of Commissioners in accordance with County policies, union contracts, and plan provisions.

Classes of Employees – The Plan's membership consists of the following at December 31, 2006, the date of the last actuarial valuation:

	County	Behavioral Health
Retirees and beneficiaries receiving benefits	623	29
Terminated plan members entitled to, but not yet receiving, benefits	92	18
Active plan members	1,122	205

Annual Pension Cost – For the year ended September 30, 2007, the contributions to the plan were as follows:

Authority contribution on behalf of employees	$ 644,720
Employee contribution	21,763

Note 10 - Employment Benefits

Upon retirement, an eligible retiree and his/her spouse may be provided health insurance based on credited years of service. Each credited year of service equates to a 5% employer paid health insurance premium. Health insurance benefits will not be provided to deferred retirees, but only to those who will be drawing retirement benefits immediately upon retirement from the Authority. The following table summarizes Bay-Arenac Behavioral Health Authority's determination of unfunded accrued liability as of December 31, 2006 based on an actuarial valuation.

	Historical Average	Conservative
Accrued Liability:		
Retirees and beneficiaries	$ 2,125,699	$ 2,301,702
Active members	6,511,785	7,077,709
Total accrued liability	8,637,484	9,379,411
Valuation of assets	7,615,087	7,615,087
Unfunded accrued liability at December 31, 2006	$ 1,022,397	$ 1,764,324

The Authority contributed $ 920,699 to the Bay County Voluntary Benefit Association (VEBA – a retiree health plan), for the year ended September 30, 2006, which is not reflected in the valuation figure. $306,900 was accrued for the year ended 2007. Contributions that are made by the Authority are discretionary based on the plan.

Note 11 - 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.

Subsequent to year end, the Authority has reached a settlement with the Michigan Department of Community Mental Health (MDCH) for the audit period October 1, 2000 through September 30, 2002. The Authority has accrued the audit settlement amount of $ 402,471.

Note 12 - Operating Leases

Bay-Arenac Behavioral Health 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 lease agreements are not reflected in the financial statements.

The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms as of September 30, 2007:

Year September 30,	Amount
2008	$ 459,795
2009	144,303
2010	130,407
2011	95,085
2-12	43,168
2013	53,960
Total	$ 926,718

Lease expense for the year ended September 30, 2007 was $ 810,796. Bay-Arenac Behavioral Health also has 9 additional leases which are operated on a month to month lease. The total payments on these leases are $3,470 per month.

Bay-Arenac Behavioral Health
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual -
General Fund
September 30, 2007

	Budgeted Amounts			
	Original	Final	Actual	Actual Over (Under) Final Budget
Revenues				
State grants				
Department of Community Health Contract				
General Fund	$ 4,252,632	$ 3,824,995	$ 3,821,644	$ (3,351)
Adults Benefit Waiver	400,500	477,681	474,527	(3,154)
Substance Use Disorder Treatment	1,824,217	2,196,579	2,179,349	(17,230)
Title XX	21,320	21,320	21,320	-
Other state revenues	96,701	95,424	95,481	57
Total state grants	6,595,370	6,615,999	6,592,321	(23,678)
Federal and state grants	475,902	513,529	512,248	(1,281)
Contributions - local units				
County appropriations	787,054	787,054	787,054	-
Affiliate contributions	710,280	710,280	710,279	(1)
PA 2 liquor tax	584,669	587,750	584,136	(3,614)
Total contributions - local units	2,082,003	2,085,084	2,081,469	(3,615)
Charges for services				
Medicaid - DCH contract	63,960,000	66,397,139	66,434,380	37,241
Medicaid - other	126,297	159,217	131,493	(27,724)
Client and third party pay	86,753	125,123	113,876	(11,247)
Other earned contract revenue	3,060,367	3,053,930	3,000,134	(53,796)
Total charges for services	67,233,417	69,735,409	69,679,883	(55,526)
Interest and rents				
Interest	559,324	676,955	669,819	(7,136)
Other revenues	139,688	79,979	87,477	7,498
Total revenues	77,085,704	79,706,955	79,623,217	(83,738)

Bay-Arenac Behavioral Health
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual -
General Fund
September 30, 2007

	Budgeted Amounts			
	Original	Final	Actual	Actual Over (Under) Final Budget
Expenditures				
Health and Welfare - Mental Health				
Current:				
Personnel costs	$ 13,389,068	$ 13,296,163	$ 12,786,676	$ (509,487)
Operating expenditures	64,375,098	64,340,422	63,987,388	(353,034)
Capital outlay	-	1,370,263	1,508,143	137,880
Debt service payments	-	-	72,810	72,810
Total expenditures	77,764,166	79,006,848	78,355,017	(651,831)
Revenues over (under) expenditures	(678,462)	700,107	1,268,200	568,093
Other financing sources (uses)				
Transfers to Internal Service Fund	-	-	38,438	38,438
Net change in fund balance	(678,462)	700,107	1,306,638	606,531
Fund balance, beginning of year	7,111,844	7,111,844	7,111,844	-
Fund balance, end of year	$ 6,433,382	$ 7,811,951	$ 8,418,482	$ 606,531

Bay Arenac Behavioral Health - Riverhaven Coordinating Agency
SUBSTANCE ABUSE PREVENTION & TREATMENT
Schedule of Budgeted, Reported, and Audited Amounts
For the Year Ended September 30, 2007

	Fund Source	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures	Variance (Audited-Reported)	Local Match Funds
A	**State Agreement**					
1	Community Grant	$ 2,080,079	$ 2,062,538	$ 2,062,538	$ -	
2	SDA	15,000	15,000	15,000	-	
3	SIG	66,561	39,282	39,282	-	
4	Methamphetamine	-	-	-	-	
A	**Subtotal**	2,161,640	2,116,820	2,116,820	-	
B	**Medicaid**					
1	Current year PEPM	1,340,675	1,340,675	1,340,675	-	
2	Reinvestment savings	-	-	-	-	
B	**Subtotal**	1,340,675	1,340,675	1,340,675	-	
C	**Adult Benefit Waiver (ABW)**					
1	Current year PEPM	57,541	57,541	57,541	-	
2	Savings	-	-	-	-	
C	**Subtotal**	57,541	57,541	57,541	-	
D	**MI CHILD**					
1	Current Year PEPM	5,674	586	586	-	
2	Savings	-	-	-	-	
D	**Subtotal**	5,674	586	586	-	
E	**Local**					
1	Current year PA2	559,339	559,339	559,339	-	$ 559,339
2	PA2 fund balance	29,170	29,170	29,170	-	29,170
3	Other Local (R325.4152 excluding subsection (1)(b))	$24,796	$24,796	24,796	-	24,796
E	**Subtotal**	613,305	613,305	613,305	-	
F	**Fees and Collections - Subtotal (R325.4151 (1)(d))**	129,171	129,171	129,171	-	129,171
G	**Other Contracts and Sources (Subtotal)**	8,045	8,045	8,045	-	
	Grand Total of Subtotals A-G	**$ 4,316,051**	**$ 4,266,143**	**$ 4,266,143**	**$ -**	

Amount billable to MDCH (Section A audited subtotal)	**$ 2,116,820**
Total MDCH payments	**2,161,640**
(Overpayment)/Underpayment	**$ (44,820)**

Local Match Funds Total	**$ 742,476**
Local Match Requirement [(Grand Total of Audited Expenditures-B-C-D-G) * 10%]	**285,930**
Local Match (Shortfall)/Excess	**$ 456,546**

Bay-Arenac Behavioral Health - Riverhaven Coordinating Agency
SUBSTANCE ABUSE PREVENTION & TREATMENT
Schedule of Expenditures and Funding Sources by Program
Year Ended September 30, 2007

			Audited Expenditures				Audited Funding Sources									
Program	Budgeted (FINAL)	Reported (FINAL RER)	Gross Amount	Less Medicaid	Less Fees	Net Amount	State Agreement	SDA	PA2	Other Local	Other Sources	ABW	MI CHILD	Total Funding	Variance (Audited-Reported)	Questioned Cost (Expenditures - Funding)
Administration	$ 502,609	$ 502,609	$ 502,609	$ 227,509	$ 400	$ 274,700	$ 274,700	$ -	$ -	$ -	$ -	$ -	$ -	$ 274,700	$ -	$ -
Prevention	710,891	695,586	695,586	-	4,800	690,786	584,455	-	106,331	-	-	-	-	690,786	-	-
Treatment	2,665,767	2,658,443	2,658,443	919,332	123,971	1,615,140	1,051,248	15,000	457,924	24,796	8,045	57,541	586	1,615,140	-	-
Women's Services	323,585	323,585	323,585	193,834	-	129,751	129,751	-	-	-	-	-	-	129,751	-	-
HIV/EIP Training	46,637	46,637	46,637	-	-	46,637	22,384	-	24,253	-	-	-	-	46,637	-	-
SIG	66,561	39,282	39,282	-	-	39,282	39,282	-	-	-	-	-	-	39,282	-	-
Methamphetamine	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals	**$ 4,316,050**	**$ 4,266,142**	**$ 4,266,142**	**$ 1,340,675**	**$ 129,171**	**$ 2,796,296**	$ 2,101,820	$ 15,000	**$ 588,508**	**$ 24,796**	**$ 8,045**	**$ 57,541**	**$ 586**	**$ 2,796,296**	**$ -**	**$ -**
							$2,116,820									

Reconciliation of PA2 Funds:

Beginning Balance	$ 444,945
Current Year PA2	584,134
Expenditures	(588,508)
Ending Balance	$ 440,571

Reconciliation of Medicaid Managed Care (PEPM) Funds:

PEPM Payments Received	$1,018,244
Medicaid Savings Carried Over	-
Expenditures	(1,340,675)
Medicaid Savings Carryforward	-
Transfer from PIHP	$ (322,431)

Bay-Arenac Behavioral Health
Supporting Schedule of Personnel Costs
Year Ended September 30, 2007

	General Fund
Personnel costs	
Salaries and wages	$ 9,448,886
Fringe benefits	3,305,300
Board per diem	32,490
Total personnel costs	$ 12,786,676

Bay-Arenac Behavioral Health
Supporting Schedule of Operating Expenditures
Year Ended September 30, 2007

	General Fund
Operating expenditures	
Advertising	$ 42,936
Communications	181,843
Consumer related	299,783
Contractual services	1,059,883
Education and training	25,713
Gain/loss on disposal of capital asset	(4,500)
Insurance	93,574
Interest expense	71,045
License and fees	8,264
Local funds paid to State	1,255,440
Membership and dues	37,941
Other	4,074
Postage	25,333
QAAP expense	3,988,018
Property taxes	14,670
Publications	6,740
Purchased services	194,485
Purchased services, affiliates	167,437
Recruitment	29,027
Rental equipment	14,959
Rental expense - buildings and other	731,433
Rental expense - State leases	203,209
Repairs and maintenance	247,093
Software license maintenance	499,333
Supplies and small equipment purchases	457,818
Transportation and vehicle expense	46,708
Travel and conferences	249,251
Utilities	98,728
Ancillary services-PT, ST, OT, RN, Dietary	994,534
Case management and supports coordination	950,895
Community inpatient services	1,280,898
Outpatient services	3,351,392
Residential Home services	10,654,037
Skill building/supportive employment	2,435,273
State inpatient services	954,244
Subcontract costs	32,573,643
Prevention	742,234
Total operating expenditures	$ 63,987,388

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CPAs & Business Consultants

3023 Davenport
Saginaw, MI 48602
(989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

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 Directors
Bay-Arenac Behavioral Health
Bay City, Michigan

We have audited the financial statements of Bay-Arenac Behavioral Health as of and for the year ended September 30, 2007, and have issued our report thereon dated March 10, 2008. We conducted our audit in accordance with generally accepted auditing standards 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 Bay-Arenac Behavioral Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay-Arenac Behavioral Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bay-Arenac Behavioral Health's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

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

Yeo & Yeo, P.C.

Saginaw, Michigan
March 10, 2008

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CPAs & Business Consultants

3023 Davenport
Saginaw, MI 48602
(989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
Bay-Arenac Behavioral Health
Saginaw, Michigan

Compliance

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

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 Bay-Arenac Behavioral Health'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 Bay-Arenac Behavioral Health's compliance with those requirements.

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

Internal Control over Compliance

The management of Bay-Arenac Behavioral Health 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 Bay-Arenac Behavioral Health's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Bay-Arenac Behavioral Health as of and for the year ended September 30, 2007, and have issued our report thereon dated March 10, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Yeo & Yeo, P.C.

Saginaw, Michigan
March 10, 2008

Bay-Arenac Behavioral Health
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Award Amount	Expenditures
Department of Health and Human Services			
Passed through Michigan Department of Community Health			
Block Grant for Prevention and Treatment of Substance Abuse	93.959	$ 2,122,469	$ 2,077,538
Less State Funding		(426,147)	(464,898)
			1,612,640
Passed through Kalamazoo Community Mental Health			
Block Grant for Prevention and Treatment of Substance Abuse		8,045	8,045
Passed through Michigan Department of Community Health			
Youth Suicide Prevention	93.243	21,175	21,175
Passed through Michigan Department of Community Health			
SIG - Bay Area Social Intervention Services	93.243	39,171	39,171
Passed through Michigan Department of Community Health			
Michigan Developmental Disabilities Council Grant	93.630	95,000	70,996
Department of Health and Human Services			
MIA OBAR PASARR	93.778	90,000	101,414
Less State Funding		(22,500)	(25,354)
			76,060
Center for Mental Health Services			
Block Grant for Community Mental Health Services 05 B1 MI CMHS	93.958	159,225	157,131
Substance Abuse and Mental Health Administration for Mental Health Services			
McKinney Homeless Act	93.150	45,500	45,500
Less State Funding		(23,000)	(23,000)
			22,500
Passed through Michigan Family Independence Agency			
Strong Families -- Safe Children	93.556	31,197	31,185
Total Department of Health and Human Services			2,038,903
Housing and Urban Development			
Passed through Michigan Department of Community Health			
Supportive Housing Program	14.235	18,044	13,920
Passed through Michigan Department of Community Health			
Shelter Plus Care	14.238	53,880	46,446
Total Federal programs			$ 2,099,269

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of Bay-Arenac Behavioral Health. All federal financial awards passed through other government agencies are included on the schedule.

Note 2 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

Note 3 - Relationship to Basic Financial Statements

Federal financial assistance revenue is included in the basic financial statements as federal and state grants.

Note 4 – PA2 Revenue Reporting Variance

Bay County operates under a calendar year and makes payments to Bay-Arenac Behavioral Health for PA2 revenue on a quarterly basis. Bay-Arenac Behavioral Health's first quarter payment is Bay County's previous year's fourth quarter payment. As a result, the amount of revenue reported by Bay-Arenac Behavioral Health at September 30, 2007 varies from Bay County's distributions by $3,614.

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes __X__ none reported

Noncompliance material to financial statements noted? _____ yes __X__ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes __X__ none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes __X__ no

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
93.959	Block Grant for Prevention and Treatment of Substance Abuse

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

Auditee qualified as low-risk auditee? __X__ yes _____ no

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ended September 30, 2007.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2007.

There were no audit findings for the year ended September 30, 2006.