Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Financial Statements

Year Ended September 30, 2006

Michigan Department of Treasury
498 (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	CMH of Clinton - Eaton - Ingham Counties	Clinton/Eaton/Ingham

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
September 30, 2006	February 16, 2007	3-9-07

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	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
BDO Seidman, LLP	269-382-0710		
Street Address	**City**	**State**	**Zip**
211 East Water Street, Suite 300	Kalamazoo	MI	49007
Authorizing CPA Signature	**Printed Name**	**License Number**	
Kristy Daniel	Kristy Daniel	1101020549	

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

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BDO

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Accountants and Consultants

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Independent Auditors' Report

Board of Directors
Community Mental Health Authority of
Clinton, Eaton, and Ingham Counties
Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the General Fund, and the aggregate remaining fund information of the Authority, as of September 30, 2006, and the changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund 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 February 16, 2007, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 preformed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on Pages 5 through 12 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Combining and Individual Fund Statements and Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BDO Seidman, LLP

Certified Public Accountants

February 16, 2007

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Management Discussion and Analysis

As management and administrators of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority), we offer readers of the Authority's financial statements this background information on our funding and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2006.

Funding Background

External factors which impact the fiscal condition and actions of the Authority: A number of factors impact the Authority's ability to carry out its mission and its ability to maintain fiscal stability. Those factors include:

- Constrained state funding, for both of the Authority's major revenue sources, State General Fund/General Purpose dollars and Medicaid.
- Support, by the current Governor, for the Community Mental Health (CMH) system and the services that it provides. In spite of constrained state funding, this support has been critical in bolstering the financial stability of the organization.
- Changing Medicaid enrollment and rates (pre-paid rates), the latter the result of a bi-annual actuarial rebasing effort.
- Fiscal and operational impact of the Authority's role, as the Prepaid Inpatient Health Plan (PIHP) for an eight county region - carried out via an Affiliation with four other CMHSPs and two substance abuse coordinating agencies.
- Changes to the federal Medicaid waivers, under which Michigan operates its Medicaid program, including the Specializes Medicaid services managed and provided by the Authority.

The Authority's aggressive, proactive, and responsive actions to leverage or counter the impact of these factors: The Authority is not a passive observer to the factors listed above. The Authority:

- Actively engages in legislative efforts, as part of the Michigan Association of Community Mental Health Boards, the Mental Health Coalition, and acting on its own to ensure sound funding for the Authority and the entire Michigan CMHSP system.
- As a part of its annual budget development effort, prepares, well in advance, for a range of revenue and expense scenarios.

- Takes aggressive steps to reduce costs via increases in staff efficiency and the utilization of the flexibility granted the Authority under the Medicaid managed care waiver. These steps worked to maximize the positive impact of some environmental factors and to minimize the negative impact of others.

- Builds alliances with community partners to stretch limited resources. The Authority is an active member of dozens of local, regional, statewide, and national collaboratives and partnerships.

- Continues to aggressively seek additional funding for a wide range of innovative services to the tri-county community, including federal, state, local, commercial, and private sources. This has resulted in the receipt of a number of state and federal grants (totaling several million dollars annually), allowing the Authority to experiment with new and innovative approaches, with an eye toward sustaining these changes when the grant funding ceases.

Ensuring the Integrity of the Authority's clinical, fiscal, and organizational infrastructure: The Authority has been committed, in the face of varying fiscal conditions, to remaining clinically, organizationally, and fiscally strong while ensuring its infrastructure was not permanently damaged by budget cuts. The following provides a picture of that strength:

- The Authority has been committed to and successful in making budget cuts avoiding, whenever possible, harm to consumers.

- The Authority maintains the clinical and administrative infrastructure of the Authority in the face of these cuts. This infrastructure is represented by sound clinical philosophies and approaches, skilled and committed staff, strong wages and fringe benefits, sound facilities and equipment, strong managerial and administrative capabilities (information services, finance, human resources, quality improvement), strong training capabilities, and strong community education efforts. This is a critical and conscious part of the Authority's approach. The Authority has seen far too many human services and governmental bodies faced with fiscal uncertainty and a rapidly changing environment, make draconian compensation cuts, eliminate staff training, reduce or eliminate building and equipment maintenance, and dramatically reduce supplies, travel, and other resources key to carrying out their mission.. These cuts are short-term and leave the organizations incredibly weakened. We have not opted for this course of action.

- The authority maintains a strong fiscal operation. Over the past several years, the Authority has developed its fiscal monitoring and management abilities, with ever-increasing sophistication, while building its risk reserve (internal service funds and carry-forward) and unreserved fund balance to a sound $8.5 million.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Management Discussion and Analysis (Continued)

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements comprise three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other supplementary information in addition to the financial statements themselves.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business. This is accomplished by reporting the Authority's assets and liabilities using the full accrual method of accounting. Prior to the implementation and adoption of GASB No. 34, the assets and liabilities of the Authority were reported using the modified accrual method accounting. In essence, this change in accounting method requires the Authority to disclose borrowings, compensated absences for employees, and capital assets less accumulated depreciation on the Authority's financial statements.

The *Statement of Net Assets* presents information on all the Authority's assets and liabilities with the difference between the two reported as total net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *Statement of Activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. In addition, this statement discloses the non-cash expenditure of depreciation that affects the ending book value of capital assets.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or object. The Authority, similar to state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority may be divided into three categories: The Governmental Fund, Internal Service Funds, and Fiduciary Funds.

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, a 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 requirement.

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 the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority adopts an annual budget for its General Fund. Budgetary comparison statements have been provided for the General Fund to demonstrate compliance with those budgets.

Proprietary Funds – Internal Service Funds

Proprietary funds are used to account for the Authority's business-type activities. The Risk Reserve Funds are used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Community Health (MDCH). Pursuant to these contractual provisions, the Authority's risk management plan has been reviewed and approved by MDCH. Separate risk reserves are maintained for mental health and substance abuse services. The Fixed Asset Replacement Reserve is used to account for and finance future fixed asset purchases and the Compensated Absences Reserve is used to account for the Authority's vacation benefit liability. Both the Fixed Asset Replacement Reserve and the Compensated Absences Reserve are permitted by the Michigan Mental Health Code.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Authority's own programs. Fiduciary funds are commonly referred to as payee funds. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The accompanying notes are an integral part of the financial statements and must be reviewed in conjunction with the information reported on the financial statements to provide a full understanding of the Authority's financial situation.

Other Information

The combining statements are presented immediately following the notes to the financial statements.

Government-Wide Financial Analysis

The largest portion of the Authority's total assets (42%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment). These capital assets are used by the Authority to provide services to the clients it serves; consequently, these assets are not available for future spending and are considered fixed. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The corresponding debt for the facilities makes up the largest portion of the Authority's liabilities representing approximately 36%.

Net Assets

	Governmental Activities	
September 30,	*2006*	*2005*
Current and other assets	$ **16,365,369**	$14,114,867
Investments	**5,731,234**	5,534,680
Capital assets, net	**16,171,502**	15,508,634
Total Assets	**38,268,105**	35,158,181
Other liabilities	**17,715,791**	14,968,102
Long-term liabilities outstanding	**9,159,384**	8,963,547
Total Liabilities	**26,875,175**	23,931,649
Net Assets:		
Invested in capital assets, net of related debt	**6,128,379**	6,096,522
Restricted	**1,819,099**	2,227,728
Unrestricted	**3,445,452**	2,902,282
Total Net Assets	$ **11,392,930**	$11,226,532

Changes in Net Assets

	Governmental Activities	
Year ended September 30,	*2006*	*2005*
Revenues:		
Program revenue:		
Charges for services	**$ 346,170**	$ 800,994
Operating grants and contributions	**40,978,191**	41,660,530
General revenue:		
MDCH contract	**69,402,434**	59,037,452
Local funding	**2,487,484**	2,433,985
Unrestricted investment earnings	**713,197**	301,961
Total Revenues	**113,927,476**	104,234,922
Expenses:		
Adults with mental illness	**25,590,792**	21,154,002
Children with emotional disturbance	**8,481,958**	6,764,946
Developmental disabilities	**37,519,322**	32,145,200
Substance abuse	**3,612,704**	3,294,226
Board administration	**7,021,678**	6,477,910
Affiliation	**722,167**	543,935
Medicaid pass-through	**30,409,463**	32,237,232
Interest	**402,994**	502,329
Total Expenses	**113,761,078**	103,119,780
Change in Net Assets	**166,398**	1,115,142
Net Assets, beginning of year	**11,226,532**	10,111,390
Net Assets, end of year	**$ 11,392,930**	$11,226,532

Financial Analysis of the Government's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Authority's Governmental Fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved 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 Authority's Governmental Fund reported an ending fund balance of $3,445,452, an increase of $543,170 in comparison with the prior year. Approximately 66.3% of this total amount ($2,287,601) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or restricted to indicate it is not available for new spending because the underlying assets are included in inventory, long-term receivables and prepaids and are not available for current expenditures.

Capital Assets and Debt Administration

Capital Assets

The Authority's investment in capital assets for its governmental activities as of September 30, 2006, amounted to $16,171,502 (net of accumulated depreciation of $14,263,458). This investment in capital assets includes land, buildings, vehicles, and equipment. Additional information on the Authority's capital assets can be found in Note 6 of the financial statements.

Debt Administration

The Authority's long-term debt activity consisted of borrowing $1,339,502 for vehicles and facilities and making debt service payments of $1,000,635 to increase debt by $338,867. Additional information on the Authority's long-term obligations can be found in Note 7 of the financial statements.

Budget Modifications

There were three primary budget modifications in fiscal year 2006 impacting both revenues and expenses:

- Children's Services budgets increased by $1,200,000 as a result of entering into a new contract with the Substance Abuse and Mental Health Services Administration (SAMHSA) and amended their contracts for Child Care Funds to deliver services to children not previously served by our agency.

- Adult Mental Health Service budgets increased by $500,000 for the purchase of injectable medications and the collection of fees for the cost of the medication. In addition, the administration of the medication were budgeted separately for the first time in order to comply with MDCH reporting requirements.

- Adult Mental Health Service budgets increased by $1,300,000 for the placement of consumers in state facilities and community hospitals due to the greater need for services and the increased rates of these services.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Management Discussion and Analysis
(Concluded)

Variance Budget to Actual

- Children's Services contracts with SAMHSA and the Child Care Funds were under budget by $450,000 due to delays in implementation of the contracts.
- Fiscal year 2006 Medicaid funds of $1,100,000 for our Affiliation were deferred for use in fiscal year 2007.
- The Authority moved from the accrual basis for recording insurance fees for services provided to recording fees on the cash basis, and the Authority recognized a loss of $680,000 incurred in fiscal years 2005 and 2006 from the administration of injectable medications.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds received. If you have questions about this report or need additional information, contact:

Business Office
Community Mental Health Authority of Clinton, Eaton, and Ingham Counties
812 East Jolly Road
Suite 210
Lansing, Michigan 48910.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Government-Wide Financial Statements
Statement of Net Assets

September 30, 2006	*Governmental Activities*
Assets:	
Cash and cash equivalents (Note 4)	$ 8,988,606
Investments (Note 4)	5,731,234
Accounts receivable (Note 5)	6,279,027
Prepaids and other assets	1,097,736
Capital assets not depreciated (Note 6)	1,525,294
Capital assets depreciated, net (Note 6)	14,646,208
Total Assets	$ 38,268,105
Liabilities:	
Accounts payable and accrued liabilities	$ 9,566,651
Unearned revenue (Note 5)	5,578,917
Current portion of long term liabilities (Note 7)	2,570,223
Noncurrent portion of long term liabilities:	
Compensated absences (Notes 7 and 8)	434,003
Debt and capital lease obligations (Note 7)	8,725,381
Total Liabilities	26,875,175
Net Assets:	
Invested in capital assets, net of related debt	6,128,379
Restricted for contract losses	1,819,099
Unrestricted	3,445,452
Total Net Assets	11,392,930
Total Liabilities and Net Assets	$ 38,268,105

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Government-Wide Financial Statements
Statement of Activities

		Program Revenues		*Governmental*
Year ended September 30, 2006	*Expenses*	*Charges for Services*	*Operating Grants and Contributions*	*Net (Expense) Revenue and Changes in Net Assets (Deficit)*
Functions/Programs:				
Governmental activities:				
Adults with mental illness	$ 25,590,792	$ 177,027	$ 2,330,001	**$ (23,083,764)**
Children with emotional disturbance	8,481,958	5,070	2,227,499	**(6,249,389)**
Developmental disabilities	37,519,322	95,243	2,725,763	**(34,698,316)**
Substance abuse	3,612,704	68,830	2,180,256	**(1,363,618)**
Board administration	7,021,678	-	383,284	**(6,638,394)**
Affiliation	722,167	-	721,925	**(242)**
Medicaid pass-through	30,409,463	-	30,409,463	**-**
Interest	402,994	-	-	**(402,994)**
Total Governmental Activities	$113,761,078	$ 346,170	$ 40,978,191	**(72,436,717)**
	General Revenues:			
	MDCH contract:			
	Medicaid			**55,726,621**
	General Fund			**13,675,813**
	Local funding			**2,487,484**
	Unrestricted investment earnings			**713,197**
	Total General Revenues			**72,603,115**
	Increase in Net Assets			**166,398**
	Net Assets, beginning of year			**11,226,532**
	Net Assets, end of year			**$ 11,392,930**

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Governmental Fund
Balance Sheet

September 30, 2006	*General Fund*
Assets:	
Cash and cash equivalents (Note 4)	$ 7,857,321
Investments (Note 4)	4,322,853
Accounts receivable (Note 5):	
Grants and contracts	2,514,125
Affiliate	1,320,031
Fees	1,916,353
Trade	90,005
Other receivable	427,006
Interfund receivable (Note 9)	765,277
Inventories	160,030
Prepaid expenditures and deposits	937,706
Total Assets	$ 20,310,707
Liabilities and Fund Balance	
Liabilities:	
Accounts payable:	
State of Michigan	$ 3,047,898
Community inpatient hospitalization	1,005,751
Trade	2,650,840
Other	630,495
Accrued payroll	1,910,048
Interfund payable (Note 9)	2,041,306
Deferred revenue (Note 5)	5,578,917
Total Liabilities	16,865,255
Fund Balance:	
Reserved:	
Inventories	160,030
Long-term receivable from other governmental units	60,655
Prepaids	937,706
Unreserved -	
Undesignated	2,287,061
Total Fund Balance	3,445,452
Total Liabilities and Fund Balance	$ 20,310,707

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Governmental Fund

Reconciliation of Fund Balance of Governmental Fund to the Net Assets of Governmental Activities on the Statement of Net Assets

September 30, 2006

Total Fund Balance - Governmental Fund (from Page 15)	$	**3,445,452**
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Internal Service Funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods for fixed asset replacement and to fund compensated absences. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.		
Add - Net assets of Internal Service Funds		**7,947,478**
Net Assets of Governmental Activities	$	**11,392,930**

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Governmental Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance

Year ended September 30, 2006	*General Fund*
Revenues:	
Federal sources	$ 1,479,114
State sources	14,536,893
Local sources	3,023,844
Medicaid contracts	57,399,601
Other contracts	6,019,194
Charges for services and fees	346,170
Investment income	607,370
Medicaid pass-through	30,409,463
Total Revenues	113,821,649
Expenditures:	
Adults with mental illness	25,762,059
Children with emotional disturbance	8,517,231
Developmental disabilities	37,623,116
Substance abuse	3,635,798
Board administration	7,110,431
Affiliation	726,009
Medicaid pass-through	30,409,463
Total Expenditures	113,784,107
Excess of Revenues Over Expenditures	37,542
Other Financing Sources -	
Transfers in	505,628
Net Change in Fund Balance	543,170
Fund Balance, beginning of year	2,902,282
Fund Balance, end of year	$ 3,445,452

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Governmental Fund

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to Statement of Activities

Year ended September 30, 2006

Net Change in Fund Balance - Governmental Fund (from Page 17)	$	**543,170**
Internal Service Funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods for fixed asset replacement and to fund compensated absences. The net revenue (expense) of those funds are reported with governmental activities:		
Add:		
Net operating income from Internal Service Funds		**416,338**
Interest revenue from Internal Service Funds		**105,827**
Gain on sale of fixed asset in Internal Service Funds		**9,685**
Deduct:		
Interest expense from Internal Service Funds		**(402,994)**
Transfer from Internal Service Funds		**(505,628)**
Change in Net Assets of Governmental Activities	$	**166,398**

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual General Fund

Year ended September 30, 2006	*Original Budget*	*Final Budget*	*Actual*	*Variance with Final Budget Positive (Negative)*
Revenues:				
Federal grants and contracts	$ 987,547	$ 1,888,216	$ 1,479,114	**$ (409,102)**
State of Michigan	13,907,468	14,338,178	14,536,893	**198,715**
Local revenue	3,132,366	3,052,735	3,023,844	**(28,891)**
Earned contracts	4,880,919	5,200,396	4,926,740	**(273,656)**
Medicaid contracts:				
PIHP	55,327,147	55,606,168	55,726,621	**120,453**
Substance abuse - PIHP	167,510	272,000	255,417	**(16,583)**
Fee for service	1,756,557	1,582,341	1,417,563	**(164,778)**
SSI/SSA	1,043,414	1,016,880	1,092,454	**75,574**
Fees	532,249	769,470	180,226	**(589,244)**
Food stamps	168,563	174,073	165,944	**(8,129)**
Interest	160,000	482,949	607,370	**124,421**
Medicaid pass-through	31,729,581	31,689,321	30,409,463	**(1,279,858)**
Total Revenues	113,793,321	116,072,727	113,821,649	**(2,251,078)**
Expenditures:				
Adults with mental illness	24,179,341	25,722,553	25,762,059	**(39,506)**
Children with emotional disturbance	8,061,559	8,917,890	8,517,231	**400,659**
Developmental disabilities	37,172,480	37,850,116	37,623,116	**227,000**
Substance abuse	3,781,565	3,578,032	3,635,798	**(57,766)**
Board administration	7,906,972	7,553,409	7,110,431	**442,978**
Affiliation administration	961,823	761,406	726,009	**35,397**
Medicaid pass-through	31,729,581	31,689,321	30,409,463	**1,279,858**
Total Expenditures	113,793,321	116,072,727	113,784,107	**2,288,620**
Excess of Revenues Over Expenditures	-	-	37,542	**37,542**
Other Financing Sources -				
Transfers in	-	-	505,628	**505,628**
Net Change in Fund Balance	-	-	543,170	**543,170**
Fund Balance, beginning of year	2,902,282	2,902,282	2,902,282	-
Fund Balance, end of year	$ 2,902,282	$ 2,902,282	$ 3,445,452	**$ 543,170**

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Statement of Net Assets
Proprietary Funds

September 30, 2006	*Internal Service Funds*
Assets:	
Cash and cash equivalents (Note 4)	$ 1,131,285
Investments (Note 4)	1,408,381
Interfund receivable (Note 9)	2,041,306
Interest receivable	11,507
Capital assets not being depreciated (Note 6)	1,525,294
Capital assets being depreciated, net (Note 6)	14,646,208
Total Assets	$ 20,763,981
Liabilities:	
Accounts payable	$ 321,619
Interfund payable	765,277
Current portion of long term liabilities (Note 7)	2,570,223
Long-term liabilities:	
Compensated absences payable (Notes 7 and 8)	434,003
Debt and capital lease obligations (Note 7)	8,725,381
Total Liabilities	12,816,503
Net Assets:	
Invested in capital assets, net of related debt	6,128,379
Restricted for contract losses	1,819,099
Total Net Assets	7,947,478
Total Liabilities and Net Assets	$ 20,763,981

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds

Year ended September 30, 2006	*Internal Service Funds*
Operating Revenue -	
Charges for services	$ 1,741,596
Operating Expenses:	
Program services	8,828
Compensated absences	205,085
Depreciation	1,111,345
Total Operating Expenses	1,325,258
Operating Income	416,338
Non-Operating Revenue (Expense):	
Interest income	105,827
Interest expense	(402,994)
Gain on sale of fixed assets	9,685
Total Non-Operating Expense	(287,482)
Income Before Transfers	128,856
Transfers Out	(505,628)
Change in Net Assets	(376,772)
Net Assets, beginning of year	8,324,250
Net Assets, end of year	$ 7,947,478

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Statement of Cash Flows
Proprietary Funds

Year ended September 30, 2006	
Operating Activities:	
Cash received from other funds	$ 1,536,511
Cash payments to outside parties	(8,828)
Cash payments to other funds	(29,475)
Cash Provided by Operating Activities	1,498,208
Capital and Related Financing Activities:	
Proceeds from new installment debt	1,339,502
Principal payments	(1,000,635)
Interest payments	(402,994)
Capital asset purchases	(1,453,850)
Proceeds from sale of fixed assets	10,941
Cash Used in Capital and Related Financing Activities	(1,507,036)
Investing Activities:	
Interest income	102,754
Purchase of investments	(50,098)
Cash Provided by Investing Activities	52,656
Increase in Cash	43,828
Cash and Cash Equivalents, beginning of year	1,087,457
Cash and Cash Equivalents, end of year	$ 1,131,285
Reconciliation of Operating Income to Cash Provided by Operating Activities:	
Operating income	$ 416,338
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation	1,111,345
Changes in assets and liabilities:	
Interfund balances	(234,560)
Compensated absences payable	205,085
Cash Provided by Operating Activities	$ 1,498,208
Noncash Transactions Affecting Financial Position:	
Transfer to General Fund on account	$ (505,628)
Acquisition of fixed assets on account	(321,619)
Net Effect of Noncash Transactions	$ (827,247)

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Statement of Fiduciary Net Assets
Fiduciary Funds

September 30, 2006	*Private Purpose Trust Fund*	*Agency Fund*
Assets:		
Cash and cash equivalents Note 4)	$ -	$ 532,432
Investments (Note 4)	17,640	-
Total Assets	$ 17,640	$ 532,432
Liabilities and Net Assets		
Liabilities -		
Accounts payable	$ 462	$ 532,432
Net Assets -		
Held in trust	17,178	-
Total Liabilities and Net Assets	$ 17,640	$ 532,432

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended September 30, 2006	*Private Purpose Trust Fund*
Additions -	
Investment earnings	$ 119
Deductions -	
Program services	34
Change in Net Assets	85
Net Assets, beginning of year	17,093
Net Assets, end of year	$ 17,178

See accompanying independent auditors' report and notes to financial statements.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Notes to Financial Statements

1. Description of the Authority

The Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority) was established under Section 205 of the Michigan Mental Health Code.

The Authority provides services generally in the areas of mental health, comprehensive substance abuse treatment, and developmental disabilities for the Clinton, Eaton, and Ingham County region. The Authority's activities are funded through federal grants, state allocations, premium revenue, county appropriations, service fees, and local gifts and grants.

The Authority serves as the Prepaid Inpatient Health Plan (PIHP) for the Community Mental Health Affiliation of Mid Michigan (CMHAMM). In this role, the Authority is responsible for the Medicaid revenue and expenditures of an eight county region consisting of Benzie, Clinton, Eaton, Gratiot, Ingham, Ionia, Newaygo, and Manistee Counties.

2. Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's significant accounting policies are described below.

Basis of Presentation

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Authority. For the most part, the effect of inter-fund activity has been removed from these statements. The Government-wide financial statements categorize activities as either governmental or business-type. All of the Authority's activities are classified as governmental.

The Statement of Activities demonstrates the degree to which the direct expenses related to a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to recipients who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Other items not included among program revenues are reported as general revenues.

See accompanying independent auditors' report.

Fund Financial Statements - Separate financial statements are provided for the Governmental Fund, Proprietary Funds, and Fiduciary Funds. The General Fund is the only governmental fund in the fund financial statements.

Measurement Focus and Basis of Accounting

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

Fund Financial Statements - 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 available if they are collected within the current period or soon enough after to pay liabilities for the current period. The Authority considers revenues available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, are recorded only when payment is due.

Service charges to first and third-party payor and grant funds associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The Authority reports the following major governmental fund -

- The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Additionally, the Authority reports the following fund types:

- The Internal Service Funds are used to account for and finance potential uninsured risks of loss related to various funds received through the Michigan Department of Community Health (MDCH), as well as for reserves for fixed asset replacement and compensated absences, as permitted by the Michigan Mental Health Code.

- The Fiduciary Funds are used to account for resources held for the benefit of parties outside the government.

See accompanying independent auditors' report.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's Internal Service Funds are charges to other funds for services provided. All revenues and expenses not meeting this definition are reported as non-operating revenues.

Assets, Liabilities, and Net Assets

Cash and Investments - Cash includes cash on hand, demand deposits, and certificates of deposit. Investments include deposits with a maturity of more than three months from the purchase date and money market accounts.

Affiliate Receivable - Affiliate receivables represent funds due to the Authority from affiliate counties under the PIHP.

Inventories, Prepaids, and Deposits – Inventories are valued at the lower of cost or market on a first-in, first-out basis, which approximates market. Inventories consist of materials for the toothbrush production facility at Bretton Square.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Certain funds held by third parties for future benefits are recorded as deposits. Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund balances.

Capital Assets - Capital assets are capitalized and reported in the Fixed Asset Replacement Reserve Internal Service Fund, net of accumulated depreciation. All purchased fixed assets are recorded at cost where historical records are available and at estimated historical costs where no historical records exist. Donated fixed assets, if any, are valued at their estimated fair market value on the date received.

See accompanying independent auditors' report.

Only improvements that add to the value of the asset or materially extend assets useful lives are capitalized. It is the policy of the Authority to capitalize assets whose value exceeds $5,000. Capital assets are depreciated on the straight-line basis over the estimated useful lives:

Building and improvements	10-25 years
Capitalized building lease	40 years
Equipment	5-10 years
Vehicles	3 years

Compensated Absences - Compensated absences are charged to operations in the Compensated Absences Reserve Internal Service Fund when earned by employees.

MDCH Revenue - The Authority provides mental health services on behalf of the MDCH in accordance with a managed specialty supports and services contract. Under the contract, the Authority receives monthly capitation payments based on the number of the MDCH's participants, regardless of services actually performed by the Authority. In addition, the MDCH makes fee-for-service payments to the Authority for certain covered services.

Deferred/Unearned Revenue - Deferred unearned revenue represents the portion of the current year MDCH contract amount and other grant revenues that may be carried over to and expended in subsequent fiscal years.

Medicaid savings, which are limited to 7.5% of the MDCH Medicaid contract amount, must be spent in the following year in accordance with a Medicaid Reinvestment Strategy. State general funds savings, which are limited to 5% of the MDCH general fund contract amount, must be spent in the following year.

Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

See accompanying independent auditors' report.

Net Assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any liabilities used for the acquisition of construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments.

CMH Affiliation of Mid-Michigan - In 2003, the Michigan Department of Community Health changed the requirements for administering Medicaid contracts. As part of this change, smaller CMH boards were required to partner together to create affiliations of sufficient size to be able to contract with MDCH. The Authority acts as the PIHP for one such affiliation. Accordingly, a substantial portion of the Authority's budget is reported as "Medicaid pass-through," and is passed-through to the CMH boards of other counties, subject to an affiliation agreement.

3. Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the executive director in August of each year and adopted by the Authority during September. The budget reports revenue related to substance abuse separately from the other revenue categories, as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance – General Fund. The budget reports expenditures by activity versus object classification. Subsequent amendments are approved by the Authority.

Excess of Expenditures Over Appropriations - The budget has been adopted on a program basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. This comparison includes expenditure budget overruns. Expenditure budget overruns were as follows:

Year ended September 30, 2006	*Original Budget*	*Final Budget*	*Actual*	*Variance with Final Budget Positive (Negative)*
Adults with mental illness	$24,179,341	$ 25,722,553	$25,762,059	**$ (39,506)**
Substance abuse	$ 3,781,565	$ 3,578,032	$ 3,635,798	**$ (57,766)**

See accompanying independent auditors' report.

4. Cash, Deposits, and Investments

Deposits - State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also insured by an agency of the United States.

The Authority's investment policy complies with the State statutes and has no additional limitations on deposits.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for mitigating custodial credit risk over deposits. At September 30, 2006, $15,763,009 of the Authority's bank balances of $16,165,077 were exposed to custodial credit risk as follows:

Uninsured and Uncollateralized:	
Cash and savings	**$ 9,191,609**
Money market	**1,477,097**
Certificates of deposit	**5,094,303**
Total Uninsured and Uncollateralized	**$ 15,763,009**

At September 30, 2006, all of the fiduciary bank balances of $611,345 included in the Statement of Fiduciary Net Assets were exposed to custodial credit risk as uninsured and uncollateralized.

Investments – State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the state of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2006, the Authority had no such investments.

See accompanying independent auditors' report.

5. Receivables

Receivables, as of September 30, 2006, for the Authority's General and Internal Service Funds in the aggregate, are as follows:

	General	*Internal Service*	*Total*	*Amount Not Expected to be Collected Within One Year*
Receivables:				
Grants and contracts	$ 2,514,125	$ -	$ 2,514,125	$ 60,655
Affiliate	1,320,031	-	1,320,031	-
Fees	1,916,353	-	1,916,353	-
Trade	90,005	-	90,005	-
Other receivable	427,006	11,507	438,513	-
Total Receivables	**$ 6,267,520**	**$ 11,507**	**$ 6,279,027**	**$ 60,655**

The Authority estimates all receivables will be fully collected.

The Governmental Fund report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. The Governmental Fund also defers revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the Governmental Fund were as follows:

	Deferred
General Fund	$ 5,578,917

See accompanying independent auditors' report

6. Capital Assets

Capital asset activity for the year ended September 30, 2006, was as follows:

	Balance October 1, 2005	*Additions*	*Deductions*	*Balance September 30, 2006*
Governmental Activities:				
Capital assets not depreciated - Land	$ 1,428,250	$ 97,044	$ -	**$ 1,525,294**
Capital assets depreciated:				
Building and improvements	11,239,770	1,002,218	-	**12,241,988**
Capitalized building lease	10,215,407	-	-	**10,215,407**
Equipment	3,042,654	320,662	(5,026)	**3,358,290**
Vehicles	2,901,798	355,545	(163,362)	**3,093,981**
Totals at Historical Cost	28,827,879	1,775,469	(168,388)	**30,434,960**
Less accumulated depreciation:				
Building and improvements	(6,058,067)	(450,398)		**(6,508,465)**
Capitalized building lease	(2,185,408)	(254,420)		**(2,439,828)**
Equipment	(2,679,143)	(191,473)	3,770	**(2,866,846)**
Vehicles	(2,396,627)	(215,054)	163,362	**(2,448,319)**
Total accumulated depreciation	(13,319,245)	(1,111,345)	167,132	**(14,263,458)**
Total capital assets being depreciated, net	14,080,384	567,080	(1,256)	**14,646,208**
Net Capital Assets	$15,508,634	$ 664,124	$ (1,256)	**$ 16,171,502**

Depreciation Expense by Function	
Adults with mental illness	$ 385,201
Children with emotional disturbance	52,961
Developmental disabilities	423,117
Substance abuse	35,870
Board administration	214,196
Total Depreciation Expense by Function	**$ 1,111,345**

See accompanying independent auditors' report.

The Authority leases various buildings and equipment under operating leases. These leases generally have a term of one year. Total costs for such leases were recorded as rent expense in the supplemental financial schedules included with this report and amounted to $640,860 for the year ended September 30, 2006.

7. Long-Term Obligations

The following is a summary of long-term debt transactions of the Authority:

September 30, 2006	*Beginning Balance*	*Additions*	*Reductions*	*Ending Balance*	*Due Within One Year*
Governmental Activities:					
Installment debt:					
Capital leases	$ 5,667,209	$ -	$ 493,631	$ 5,173,578	$ 478,416
Notes payable	3,480,018	1,015,000	308,650	4,186,368	276,936
Vehicle loans	202,207	324,502	198,354	328,355	207,568
Total installment debt	9,349,434	1,339,502	1,000,635	9,688,301	962,920
Compensated absences	1,836,221	1,622,364	1,417,279	2,041,306	1,607,303
Total Long-Term Liabilities - Governmental Activities	$11,185,655	$ 2,961,866	$2,417,914	$ 11,729,607	$ 2,570,223

Annual requirements to pay principal and interest on long-term debt are as follows:

	Governmental Activities		
Year ending September 30,	*Principal*	*Interest*	*Total*
2007	$ 962,920	$ 464,028	$ 1,426,948
2008	687,186	418,774	1,105,960
2009	467,159	388,740	855,899
2010	463,512	369,642	833,154
2011	518,651	348,907	867,558
2012-2016	2,957,221	1,531,613	4,488,834
2017-2021	2,854,751	564,308	3,419,059
2022-2026	489,346	177,462	666,808
Thereafter	287,555	35,522	323,077
	$ 9,688,301	$ 4,298,996	$ 13,987,297

See accompanying independent auditors' report.

Long-term installment debt payable at September 30, 2006, is comprised of the following:

Capital building lease payable, interest ranging from 4.30% to 5.00%, due in semi-annual installments ranging from $215,553 to $488,335, plus interest, though July 2018; the lease continues through July 2048	**$ 4,602,149**
Capital building lease payable, interest at 7.39%, due in monthly installments of $14,670 through July 2008; the lease continues through July 2038 with payments consisting solely of utility costs after July 2008	**287,963**
Capital leasehold improvements payable, interest at 5.00%, due in monthly installments of $2,285 through April 2021	**283,466**
Notes payable, including interest ranging generally from 4.3125% to 85% of prime (prime was 8.25% at September 30, 2006), due in monthly installments through September 2024, collateralized by land and buildings	**4,186,368**
Vehicle leases payable, interest at 5.50%, due in monthly installments through September 2008	**328,355**
Total Long-Term Debt	**$ 9,688,301**

8. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Authority manages its risk exposures through commercial insurance and excess coverage policies. On risks that are commercially insured, the Authority retains risk of loss ranging from $1,000 - $25,000. Settlements have not exceeded commercial insurance coverage in any of the past three years.

In addition, the Authority provides dental employee benefits through a self-insurance plan. Claims expenditures and liabilities are reported in the General Fund when it is probable that a loss has occurred and the amount can be reasonably estimated. At September 30, 2006, the amount of this liability was approximately $34,000.

See accompanying independent auditors' report.

The Authority is exposed to risk of loss up to 7.5% of revenues received from the state of Michigan under its managed care contracts. To manage these risks, the Authority makes payments to the Mental Health and Substance Abuse Risk Reserve Internal Service Fund based on actuarial estimates of the amounts needed to pay prior and current claims and to establish a reserve for excess loss.

The Authority established savings goals as follows: 1) Medicaid savings goal of up to 7.5% of Medicaid revenues and not less than 2.5% of Medicaid revenues; 2) General Fund savings goals of up to 5% of General Fund revenues; 3) Medicaid Internal Service Fund reserves to no greater than the maximum amount allowed by MDCH; and 4) General Fund Internal Service Fund reserves to no greater than the maximum amount allowed by MDCH.

The Fixed Asset Replacement and Compensated Absences Reserve Internal Service Funds are restricted for securing resources to fund future capital asset replacements and making payments on accrued compensated absences, as permitted by the Michigan Mental Health Code.

Following is a schedule of changes in Net Assets of the Risk Reserve Internal Service Funds:

Year ended September 30, 2006	*Mental Health*	*Substance Abuse*	*Fixed Asset Replacement*	*Compensated Absences*
Beginning balance	$ 2,140,271	$ 87,457	$ 6,096,522	$ -
Additions	102,165	3,662	1,546,196	205,085
Deletions	(514,456)	-	(1,514,339)	(205,085)
Ending balance	**$ 1,727,980**	**$ 91,119**	**$ 6,128,379**	**$ -**

Additions to the Mental Health and Substance Abuse Risk Reserves were comprised of funds received from MDCH and interest earnings. Additions to the Fixed Asset Replacement and Compensated Absences Reserves were comprised of interfund charges for services and gains on the sale of capital assets. Reductions in the reserves represented the funds' respective program services and depreciation.

Contributions to the Internal Service Funds are considered eligible expenditures under the MDCH contract and, accordingly, are included on the Statement of Revenue, Expenditures, and Changes in Fund Balance - General Fund in the various expenditure categories.

See accompanying independent auditors' report.

9. Interfund Receivables, Payables, and Transfers

The Authority has the following interfund receivables and payables:

Due to:	*General Fund*	*Compensated Absences Reserve*	*Total Payable*
Due from:			
General Fund	$ -	$ 2,041,306	**$ 2,041,306**
Mental Health Risk Reserve	732,074	-	**732,074**
Fixed Asset Replacement Reserve	33,203	-	**33,203**
Total Receivable	**$ 765,277**	**$ 2,041,306**	**$ 2,806,583**

These balances represent the difference between the cumulative cash flows of the fixed asset replacement reserve, risk reserve, and compensated absences reserve, and the amounts charged to the General Fund as eligible expenditures under the MDCH contract.

The Mental Health Reserve Internal Service Fund transferred $505,628 to the General Fund to fund excess expenditures.

10. Retirement Plan

Defined Benefit Pension

The Authority participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees Retirement System of Michigan (MERS), which provides retirement, death, and disability benefits covering substantially all of the Authority's full-time employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917.

The obligation to contribute to and maintain MERS for these employees was established by negotiation with the Authority's collective bargaining units and requires a contribution from employees of 1.54% to 6.34%.

See accompanying independent auditors' report.

For the year ended September 30, 2006, the Authority's annual pension cost of $2,929,457 for the plan was equal to the required and actual contribution. The annual required contribution was actuarially determined as a percentage of payroll ranging from 12.58% to 15.58% using the entry actual age cost method. At December 31, 2005, the date of the latest actuarial valuation significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year, plus a percentage based on an age related scale to reflect merit, longevity, and promotional salary increases, and (c) withdrawal rates ranging 0 – 18% based on years of service for members with less than five years of service and based on age for members with five years or more of service. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis over 30 years.

Three-Year Trend Information

	Year ended September 30,		
	2006	*2005*	*2004*
Annual pension cost	**$ 2,929,457**	$ 2,612,124	$ 2,463,012
Percentage of APC contributed	**100%**	100%	100%

	Year ended December 31,		
	2005	*2004*	*2003*
Actuarial value of assets	$62,910,523	$ 58,677,727	$54,621,704
Actuarial accrued liability (entry age)	$85,581,890	$ 80,881,955	$74,479,549
Unfunded AAL	$22,671,367	$ 22,204,228	$19,857,845
Funded ratio	74%	73%	73%
Covered payroll	$23,414,730	$ 23,463,706	$21,490,994
UAAL as a percentage of covered payroll	97%	95%	92%

Defined Contribution Pension

The ICMA-RC is a defined contribution pension plan established by the authority to provide benefits at retirement to physicians that elected to discontinue their participation in the MERS defined benefit plan as of August 1, 2000, and to all physicians that were hired after August 1, 2000. At September 30, 2006, there were 13 plan members. Plan members are required to contribute 3% of covered salary. The authority is required to contribute 7.7% of annual covered payroll, totaling approximately $85,000 for the year ended September 30, 2006. Plan provisions and contribution requirements are established and may be amended by the Authority.

See accompanying independent auditors' report.

11. Other Postemployment Benefits

In addition to the pension benefits described in Note 10, the Authority provides postretirement health care benefits for eligible retirees of the Local 459 union. To be eligible upon retirement, the employee must be vested in the pension plan, be in a residential, RN or local 459 position for 10 years, including the five prior to retirement, and be at least 60 years of age. The plan allows retirees to purchase health care insurance for $75 less than the cost. If the plan does not have proper funding for this discount, the cost to the retiree will increase. The Authority is obligated to make annual contributions of $25,000 under the plan and is not required to provide any additional funding to the plan.

12. Grants and Contracts

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. The state of Michigan allocation under Act 258 provides support for all qualifying programs and allowable costs, with the balance being provided by contributions from local sources.

State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

13. Commitments

At September 30, 2006, the Authority has a commitment to contribute $20,000 annually to a major maintenance fund controlled by Ingham County for repairs on property under a capital lease agreement with Ingham County. The obligations under this lease agreement expire on July 1, 2018. The major maintenance fund held by Ingham County is restricted for use for maintenance scheduled in the agreement; therefore, the balance is not recorded by the Authority. The balance of this fund at September 30, 2006, was approximately $322,000.

On September 13, 2006, the Authority entered into an offer to purchase a consumer run support services program structure for $650,000. The purchase offer was accepted subsequent to year-end on October 5, 2006.

See accompanying independent auditors' report.

Combining and Individual Fund Statements and Schedules

Year ended September 30, 2006	*Adults With Mental Illness*	*Children With Emotional Disturbance*
Expenditures:		
Current:		
Salaries and wages	$ 9,224,684	$ 4,074,841
Fringe benefits	2,679,371	1,285,841
Contractual services:		
Clinical	76,486	49,010
Client	5,339,392	601,218
Inpatient	2,694,326	342,259
Other	309,017	348,484
Communication	136,109	88,568
Dues and supplies	993,881	120,144
General insurance	288,548	80,751
Client transportation	291,395	1,944
Travel, conferences, and parking	91,762	234,772
Employee programs	7,164	2,655
Utilities	182,690	54,638
Rent	146,847	31,844
Repairs and maintenance	210,185	35,330
Program food services	156,012	-
Local match	466,699	426,593
Capital outlay	2,167	1,058
Other	2,312	274
Quality assurance assessment premium	1,784,853	581,535
Compensated absences use	62,366	27,549
Fixed asset use allowance	615,793	127,923
Total Expenditures before Medicaid Pass-Through	**25,762,059**	**8,517,231**
Medicaid pass-through		
Total Expenditures	**$ 25,762,059**	**$ 8,517,231**

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Schedule of Functional Expenditures
General Fund

Developmental Disabilities	*Substance Abuse*	*Board Administration*	*Affiliation*	*Total*
$ 10,642,560	$ 2,131,882	$ 3,799,040	$ 461,419	**$ 30,334,426**
2,966,620	641,158	1,255,403	132,817	**8,961,210**
54,231	9,020	-	-	**188,747**
16,730,092	-	450	-	**22,671,152**
-	-	-	-	**3,036,585**
123,030	103,043	335,069	31,337	**1,249,980**
140,416	31,376	94,263	31,792	**522,524**
688,055	86,057	492,454	13,910	**2,394,501**
260,910	42,912	62,032	7,768	**742,921**
921,095	4,399	51,367	-	**1,270,200**
195,643	20,274	67,290	18,700	**628,441**
4,515	1,402	42,644	130	**58,510**
178,201	65,327	49,184	5,608	**535,648**
412,385	30,942	16,891	1,951	**640,860**
391,709	36,823	275,369	3,744	**953,160**
83,140	79,678	-	-	**318,830**
694,149	-	136,269	-	**1,723,710**
14,083	357	21,110	112	**38,887**
14,338	92	69,563	30	**86,609**
2,654,717	255,042	-	-	**5,276,147**
71,952	14,413	25,685	3,120	**205,085**
381,275	81,601	316,348	13,571	**1,536,511**
37,623,116	**3,635,798**	**7,110,431**	**726,009**	**83,374,644**
				30,409,463
$ 37,623,116	**$ 3,635,798**	**$ 7,110,431**	**$ 726,009**	**$ 113,784,107**

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Combining Statement of Net Assets
Internal Service Funds

September 30, 2006	*Mental Health Reserve*	*Substance Abuse Risk Reserve*	*Fixed Asset Replacement Reserve*	*Compensated Absences Reserve*	*Total*
Assets:					
Cash and cash equivalents	$1,040,166	$91,119	$ -	$ -	**$ 1,131,285**
Investments	1,408,381	-	-	-	**1,408,381**
Interfund receivable	-	-	-	2,041,306	**2,041,306**
Interest receivable	11,507	-	-	-	**11,507**
Capital assets not depreciated	-	-	1,525,294	-	**1,525,294**
Capital assets depreciated, net	-	-	14,646,208	-	**14,646,208**
Total Assets	$2,460,054	$91,119	$16,171,502	$ 2,041,306	**$ 20,763,981**
Liabilities:					
Accounts payable	$ -	$ -	$ 321,619	$ -	**$ 321,619**
Interfund payable	732,074	-	33,203	-	**765,277**
Current portion of long-term liabilities	-	-	962,920	1,607,303	**2,570,223**
Long-term liabilities:					
Compensated absences payable	-	-	-	434,003	**434,003**
Debt and capital lease obligations	-	-	8,725,381	-	**8,725,381**
Total Liabilities	732,074	-	10,043,123	2,041,306	**12,816,503**
Net Assets:					
Invested in capital assets, net of related debt	-	-	6,128,379	-	**6,128,379**
Restricted for contract losses	1,727,980	91,119	-	-	**1,819,099**
Total Net Assets	1,727,980	91,119	6,128,379	-	**7,947,478**
Total Liabilities and Net Assets	$2,460,054	$91,119	$16,171,502	$ 2,041,306	**$ 20,763,981**

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Combining Statement of Revenue, Expenses and Changes in Net Assets
Internal Service Funds

Year ended September 30, 2006	*Mental Health Reserve*	*Substance Abuse Risk Reserve*	*Fixed Asset Replacement Reserve*	*Compensated Absences Reserve*	*Total*
Operating Revenue -					
Charges for services	$ -	$ -	$ 1,536,511	$ 205,085	**$ 1,741,596**
Operating Expenses:					
Program services	8,828	-	-	-	**8,828**
Compensated absences	-	-	-	205,085	**205,085**
Depreciation	-	-	1,111,345	-	**1,111,345**
Total Operating Expenses	8,828	-	1,111,345	205,085	**1,325,258**
Operating Income	(8,828)	-	425,166	-	**416,338**
Non-Operating Revenue (Expense):					
Interest income	102,165	3,662	-	-	**105,827**
Interest expense	-	-	(402,994)	-	**(402,994)**
Gain on sale of fixed assets	-	-	9,685	-	**9,685**
Total Non-Operating Revenue (Expense)	102,165	3,662	(393,309)	-	**(287,482)**
Income Before Transfers	93,337	3,662	31,857	-	**128,856**
Transfers Out	(505,628)	-	-	-	**(505,628)**
Change in Net Assets	(412,291)	3,662	31,857	-	**(376,772)**
Net Assets, beginning of year	2,140,271	87,457	6,096,522	-	**8,324,250**
Net Assets, end of year	$ 1,727,980	$ 91,119	$ 6,128,379	$ -	**$ 7,947,478**

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Combining Statement of Cash Flows
Internal Service Funds

Year ended September 30, 2006	*Mental Health Reserve*	*Substance Abuse Risk Reserve*	*Fixed Asset Replacement Reserve*	*Compensated Absences Reserve*	*Total*
Operating Activities:					
Cash received from other funds	$ -	$ -	$ 1,536,511	$ -	**$ 1,536,511**
Cash payments to outside parties	(8,828)	-	-	-	**(8,828)**
Cash payments to other funds	-	-	(29,475)	-	**(29,475)**
Cash Provided by (Used in) Operating Activities	(8,828)	-	1,507,036	-	**1,498,208**
Capital and Related Financing Activities:					
Proceeds from new installment debt	-	-	1,339,502	-	**1,339,502**
Principal payments	-	-	(1,000,635)	-	**(1,000,635)**
Interest payments	-	-	(402,994)	-	**(402,994)**
Capital asset purchases	-	-	(1,453,850)	-	**(1,453,850)**
Proceeds from sale of fixed assets	-	-	10,941	-	**10,941**
Cash Used in Financing Activities	-	-	(1,507,036)	-	**(1,507,036)**
Investing Activities:					
Interest received	99,092	3,662	-	-	**102,754**
Sale of investment	(50,098)	-	-	-	**(50,098)**
Cash Provided by Investing Activities	48,994	3,662	-	-	**52,656**
Increase in Cash and Cash Equivalents	40,166	3,662	-	-	**43,828**
Cash and Cash Equivalents, beginning of year	1,000,000	87,457	-	-	**1,087,457**
Cash and Cash Equivalents, end of year	$1,040,166	$ 91,119	$ -	$ -	**$ 1,131,285**

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Combining Statement of Cash Flows
Internal Service Funds
(Concluded)

Year ended September 30, 2006	*Mental Health Reserve*	*Substance Abuse Risk Reserve*	*Fixed Asset Replacement Reserve*	*Compensated Absences Reserve*	*Total*
Reconciliation of Operating Income (Loss) to Cash Provided by (Used in) Operating Activities:					
Operating income	$ (8,828)	$ -	$ 425,166	$ -	**$ 416,338**
Adjustments to reconcile operating income (loss) to cash provided by (used in) operating activities:					
Depreciation	-	-	1,111,345	-	**1,111,345**
Changes in assets and liabilities:					
Interfund receivable	-	-	-	(205,085)	**(205,085)**
Interfund payable	-	-	(29,475)	-	**(29,475)**
Compensated absences payable	-	-	-	205,085	**205,085**
Cash Provided by (Used in) Operating Activities	$ (8,828)	$ -	$ 1,507,036	$ -	**$ 1,498,208**
Noncash Transactions Affecting Financial Position:					
Transfer to General Fund on account	$ (505,628)	$ -	$ -	$ -	**$ (505,628)**
Acquisition of fixed assets on account	-	-	(321,619)	-	**(321,619)**
Net Effect of Noncash Transactions	**$ (505,628)**	$ -	**$ (321,619)**	$ -	**$ (827,247)**

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Statement of Changes in Assets and Liabilities
Agency Fund

Year ended September 30, 2006	*Beginning Balance*	*Additions*	*Deletions*	*Ending Balance*
Assets -				
Cash and cash equivalents	$531,632	$ 633,920	$ 633,120	**$ 532,432**
Liabilities -				
Accounts payable	$531,632	$ 644,669	$ 643,869	**$ 532,432**

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Additional Reports Required by *OMB Circular A-133*

Year Ended September 30, 2006

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

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Independent Auditors' 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*

Finance and Audit Committee
Community Mental Health Authority of
Clinton, Eaton, and Ingham Counties
Lansing, Michigan

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated February 16, 2007.

This report is intended solely for the information and use of the Finance and Audit Committee, management, 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.

BDO Seidman, LLP

Certified Public Accountants

February 16, 2007

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Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

Finance and Audit Committee
Community Mental Health Authority of
Clinton, Eaton, and Ingham Counties
Lansing, Michigan

Compliance

We have audited the compliance of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority) 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, 2006. The Authority's major federal programs are identified in the accompanying summary of auditors' results and schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Authority 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, 2006.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with 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 the 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 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 grant agreements 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of the Authority, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 16, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards required by *OMB Circular A-133* and the Substance Abuse Prevention and Treatment Schedule of Expenditures are not a required part of the basic financial statements but are presented for purposes of additional analysis. 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 Finance and Audit Committee, management, 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.

BDO Seidman, LLP

Certified Public Accountants

February 16, 2007

Federal Grantor/Pass Through Grantor/Program Title	*Federal CFDA Number*	*Pass-Through Grantor Number*
U.S. Department of Health and Human Services:		
Direct Grant -		
Substance Abuse & Mental Health Services Administration (SAMHSA)	93.104	SM57044-01
Passed-through Michigan Department of Public Health:		
Block Grant for Prevention and Treatment of Substance Abuse	93.959	02BIMISAPT
Block Grant for Prevention and Treatment of Substance Abuse	93.959	02BIMISAPT
Total Passed-through Michigan Department of Public Health		
Passed-through Michigan Department of Community Health:		
Block Grants for Community Mental Health Services:		
Respite	93.958	05B1CMHS-03
Wraparound Coordination	93.958	04B1MICMHS
Wraparound Coordination	93.958	05B1CMHS-03
Transitional Youth Services	93.958	04B1MICMHS
Transitional Youth Services	93.958	05B1CMHS-03
Juvenile Justice	93.958	04B1MICMHS
Juvenile Justice	93.958	05B1CMHS-03
Co-Occurring Disorders: Integrated Dual Disorders Treatment	93.958	05B1CMHS-03
Parent Management Training	93.958	05B1CMHS-03
Jail Diversion	93.958	04B1MICMHS
JIMHO Equipment	93.958	04B1MICMHS
JIMHO Project Stay	93.958	05B1CMHS-03

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Approved Award/ Grant Amount	*Accrued (Deferred) Revenue, Beginning of Year*	*Federal Revenue Received*	*Other Revenue Recognized*	*Federal Expenditures*	*Other Expenditures*	*Accrued (Deferred) Revenue, End of Year*	*Federal Revenue Recognized in Basic Financial Statements*
$ 700,738	$ -	$ -	$ -	$ 478,539	$ -	**$ 478,539**	$ 478,539
52,535	1,634	1,634	-	-	-	-	-
88,846	-	66,473	22,373	67,122	22,373	**649**	67,122
	1,634	68,107	22,373	67,122	22,373	**649**	67,122
13,061	-	13,061	-	13,061	-	-	13,061
87,461	21,694	21,694	-	-	-	-	-
87,461	-	57,801	-	75,583	-	**17,782**	75,583
69,000	28,586	28,586	-	-	-	-	-
69,000	-	49,045	-	65,264	-	**16,219**	65,264
174,092	66,482	66,482	-	-	-	-	-
174,092	-	94,250	-	148,182	-	**53,932**	148,182
53,400	-	20,417	-	44,581	-	**24,164**	44,581
40,000	-	-	-	38,194	-	**38,194**	38,194
63,470	14,291	14,291	-	-	-	-	-
7,030	2,834	2,834	-	-	-	-	-
5,500	-	2,573	-	5,500	-	**2,927**	5,500
	133,887	371,034	-	390,365	-	**153,218**	390,365

See accompanying notes to Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass Through Grantor/Program Title	*Federal CFDA Number*	*Pass-Through Grantor Number*
U.S. Department of Health and Human Services (Concluded):		
Passed-through Michigan Department of Community Health (Concluded):		
Homeless Youth Outreach Expansion Project	93.150	SMX060023K
Homeless Youth Outreach Expansion Project	93.150	SMX060023K
Mental Health Services for the Homeless	93.150	SMX 060023K
Mental Health Services for the Homeless	93.150	SMX 060023K
McKinney Homeless Act	93.150	SMX 060023K
McKinney Homeless Act	93.150	SMX 060023K
Child Care and Development Block Grant	93.575	04MICCDF
Child Care and Development Block Grant	93.575	0401MICCDF
Medical Assistance Program	93.778	
Medical Assistance Program	93.778	
Total Passed-through Michigan Department of Community Health		
Passed-through Michigan Department of Human Services:		
Wraparound Coordination (Title IV-E)	93.556	WRAP-05-33001
Wraparound Coordination (Title IV-E)	93.556	WRAP-05-33001-2
Total Passed-through Michigan Department of Human Services		
Total U.S. Department of Health and Human Services		

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Approved Award/ Grant Amount	*Accrued (Deferred) Revenue, Beginning of Year*	*Federal Revenue Received*	*Other Revenue Recognized*	*Federal Expenditures*	*Other Expenditures*	*Accrued (Deferred) Revenue, End of Year*	*Federal Revenue Recognized in Basic Financial Statements*
$ 75,000	$ 1,345	$ 1,345	$ -	$ -	$ -	$ -	$ -
76,500	-	73,500	-	73,500	-	-	73,500
60,000	13,258	13,258	-	-	-	-	-
93,523	-	42,312	26,152	58,666	26,152	**16,354**	58,666
6,250	6,250	6,250	-	-	-	-	-
15,000	-	11,250	-	15,000	-	**3,750**	15,000
	20,853	147,915	26,152	147,166	26,152	**20,104**	147,166
70,997	11,506	11,506	-	-	-	-	-
70,997	-	62,724	-	70,997	-	**8,273**	70,997
	11,506	74,230	-	70,997	-	**8,273**	70,997
330,915	28,664	28,664	-	-	-	-	-
330,915	-	139,831	71,168	213,504	71,168	**73,673**	213,504
	28,664	168,495	71,168	213,504	71,168	**73,673**	213,504
	194,910	761,674	97,320	822,032	97,320	**255,268**	822,032
52,000	2,894	2,894	-	-	-	-	-
60,000	-	56,377	-	60,046	-	**3,669**	60,046
	2,894	59,271	-	60,046	-	**3,669**	60,046
	199,438	889,052	119,693	1,427,739	119,693	**738,125**	1,427,739

See accompanying notes to Schedule of Expenditures of Federal Awards.

Federal Grantor/Pass Through Grantor/Program Title	*Federal CFDA Number*	*Pass-Through Grantor Number*
U.S. Department of Housing and Urban Development -		
Passed through the Office of Community Planning and Development:		
Supportive Housing Program	14.235	MI28B20006R
Supportive Housing Program	14.235	MI28B20006R
Total U.S. Department of Housing and Urban Development		
Total Federal Programs		

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Approved Award/ Grant Amount	*Accrued (Deferred) Revenue, Beginning of Year*	*Federal Revenue Received*	*Other Revenue Recognized*	*Federal Expenditures*	*Other Expenditures*	*Accrued (Deferred) Revenue, End of Year*	*Federal Revenue Recognized in Basic Financial Statements*
$ 49,875	$ 9,765	$ 9,765	$ -	$ -	$ -	$ -	$ -
49,875	-	38,113	-	51,375	-	**13,262**	51,375
	9,765	47,878	-	51,375	-	**13,262**	51,375
	$ 209,203	$ 936,930	$ 119,693	$ 1,479,114	$ 119,693	**$ 751,387**	$ 1,479,114

See accompanying notes to Schedule of Expenditures of Federal Awards.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Substance Abuse Prevention and Treatment

Schedule of Budgeted, Reported, and Audited Amounts – Year Ended September 30, 2006

Fund Source	*Budgeted*	*Reported*	*Audited Expenditures*	*Reported/ Audited Variance*	*Local Match*
A. State Agreement					
Community Grant	$ 67,759	$ 67,122	$ 67,122	$ -	$ -
SDA	-	-	-	-	-
SIG	-	-	-	-	-
Methamphetamine	-	-	-	-	-
A. Subtotal	67,759	67,122	67,122	-	-
B. Medicaid					
Current Year PEPM (Federal and State)	-	-	-	-	-
Reinvestment Savings	-	-	-	-	-
B. Subtotal	-	-	-	-	-
C. Adult Benefit Waiver (ABW)					
Current Year PEPM (Federal share only)	-	-	-	-	-
C. Subtotal	-	-	-	-	-
D. MI Child					
Current Year PEPM	-	-	-	-	-
D. Subtotal	-	-	-	-	-
E. Local					
Current Year PA2	-	-	-	-	-
PA2 Fund Balance	-	-	-	-	-
Other Local (R325.4152 excluding subsection (1)(b))	-	-	-	-	-
E. Subtotal	-	-	-	-	-
F. Fees and Collections - Subtotal (R325.4151 (1)(d))	-	-	-	-	-
G. Other Contracts and Sources (Subtotal)	-	-	-	-	-
Grand Total of Subtotals	$ 67,759	$ 67,122	$ 67,122	$ -	$ -

Amount Billable to MDCH (Section A audited subtotal)	$ 67,122
Total MDCH Payments	-
(Overpayment)/Underpayment	$ 67,122

Local Match Funds Total	$ -
Local Match Requirement [(Grand Total of Audited Expenditures-B-C-D-G) * 10%]	6,712
Local Match (Shortfall)/Excess	$ (6,712)

See accompanying notes to Schedule of Expenditures of Federal Awards.

Program	Final Budget (net of Fees and Medicaid)	Reported (net of Fees and Medicaid)	Audited Expenditures			
			Gross	Less Medicaid	Less Fees	Net
Central Administration	$ -	$ -	$ -	$ -	$ -	$ -
Prevention	67,759	67,122	67,122	-	-	67,122
Treatment	-	-	-	-	-	-
Women's Specialty/CDR	-	-	-	-	-	-
HIV/Aids	-	-	-	-	-	-
SIG	-	-	-	-	-	-
Methamphetamine	-	-	-	-	-	-
Other	-	-	-	-	-	-
	$ 67,759	**$ 67,122**	**$ 67,122**	**$ -**	**$ -**	**$ 67,122**

Reconciliation of PA2 Funds:	
Beginning balance	$ -
Additions	-
Expended	-
Ending balance	$ -

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Substance Abuse Prevention and Treatment

Schedule of Expenditures and Funding Sources by Program – Year Ended September 30, 2006

Audited Funding Sources								
State	*SDA*	*Other Local*	*PA2*	*ABW*	*MI Child*	*Other*	*Total Funding*	*Reported / Audited Variance*
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
67,122	-	-	-	-	-	-	67,122	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
$ 67,122	$ -	$ -	$ -	$ -	$ -	$ -	$ 67,122	$ -

Reconciliation of Medicaid Managed Care Funds (PEPM):

PEPM payments received	$ -
Medicaid savings c/o	-
Funds expended	-
Medicaid savings C/F	-
Returned to PIHP	$ -

See accompanying notes to Schedule of Expenditures of Federal Awards.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

The accounting policies of the Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Authority's significant accounting policies for its federal grants:

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Property and Equipment

Property and equipment costs are charged to program costs as incurred.

2. Description of Grant Programs

Substance Abuse & Mental Health Services Administration - *This program integrates multiple paths to achieve comprehensive children's treatment.*

Block Grant for Prevention and Treatment of Substance Abuse - This program provides services to substance abusers. Services include outpatient counseling, correctional assessment and treatment, residential, older adult substance abuse prevention and treatment, dual diagnosis, and recovery. Funding is provided to the Authority through agreements with the Mid-South Substance Abuse Commission.

Block Grants for Community Mental Health Services:

Respite - The purpose of this program is to provide children respite services. Funding is provided through agreements with the Michigan Department of Community Health.

Block Grants for Community Mental Health Services (Continued):

Wraparound Coordination - This program provides services needed to reinforce family strengths and foster self-sufficiency for children with severe emotional disorders. Funding is provided through agreements with the Michigan Department of Community Health.

Transitional Youth Services - This program provides a transitional bridge between children and adult mental health service systems, and provides linkages to educational, vocational, and other community services. Funding is provided through agreements with the Michigan Department of Community Health.

Juvenile Justice - This program provides funding to develop programs and training to local governments in planning, establishing, funding, operating, and evaluating juvenile delinquency programs. Funding is provided through agreements with the Michigan Department of Community Health.

Co-Occurring Disorders: Integrated Dual Disorders Treatment - The focus of the program is to implement mental health practice improvements.

Parent Management Training - The focus of the program is to implement mental health practice improvements.

Jail Diversion - This program promotes development of training for all criminal justice and aspects of jail diversion and expands knowledge in serious and persistent mental illness, emotional disturbance, and development disabilities.

JIMHO Equipment - *This program purchases equipment to assist with the primary mentally ill individuals working within their own recovery plan.*

Homeless Youth Outreach Expansion Project - This program provides funds for education and prevention services to runaway, homeless, and street youth. Funding is provided through agreements with the Michigan Department of Community Health.

Block Grants for Community Mental Health Services (Concluded):

Mental Health Services for the Homeless - This program provides intervention services to homeless individuals. Primary services include home-finding and long-term outreach counseling. Funding is provided through agreements with the Michigan Department of Community Health.

McKinney Homeless Act - This program provides support services to individuals with mental illness who are homeless or at imminent risk of homelessness.

Child Care and Development Block Grant - The focus of this program is to provide childcare consultation to Clinton, Eaton, and Ingham Counties.

Medical Assistance Program - This program provides preadmission screenings for nursing home admissions and initial resident reviews. Funding is provided through agreements with the Michigan Department of Community Health.

Wraparound (Title IV E) - This program provides technical assistance and support to families with children at imminent risk of removal. Funding is provided by the Michigan Department of Human Services.

Supportive Housing Program - This program promotes development of supportive housing and supportive services for individuals transitioning from homelessness. Funding is provided through agreements with the Office of Community Planning and Development.

Community Mental Health Authority of Clinton, Eaton, and Ingham Counties

Summary of Auditors' Results and Schedule of Findings and Questioned Costs - Year Ended September 30, 2006

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No (none reported)
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	No (none reported)
Type of auditor's 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*?	No

Identification of major programs:

CFDA Number	*Name of Federal Program or Cluster*
93.958	Block Grants for Community Mental Health Services
93.104	Substance Abuse & Mental Health Services Administration

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

BDO Seidman, LLP
Accountants and Consultants

211 East Water Street, Suite 300
Kalamazoo, Michigan 49007
Telephone: (269) 382-0170
Fax: (269) 345-1666

February 16, 2007

Community Mental Health Authority of
Clinton, Eaton, and Ingham Counties
812 East Jolly Road, Suite 210
Lansing, Michigan 48910

Dear Members of the Board, Executive Director, and Finance Director:

Professional standards require us to advise you of the following matters relating to our recently completed audit. The matters discussed herein are those that we have noted as of February 16, 2007, and we have not updated our procedures regarding these matters since that date to the current date.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated September 26, 2006, our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with generally accepted auditing standards does not provide absolute assurance or a guarantee of the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of Community Mental Health Authority of Clinton, Eaton, and Ingham Counties' (the Authority) internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in the notes to the financial statements. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. Our audit procedures included inquiries about, and a review of, significant management judgments and accounting estimates.

There were no material contingencies, as defined in FASB Statement No. 5, for which we had questions or concerns about the reasonableness of the accounting or the adequacy of the financial statement disclosure.

Significant Audit Adjustments and Financial Statement Disclosures

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments that were not recorded by the Authority because they are not material to the current financial statements but might be potentially material to future financial statements.

Management identified and provided us with 31 entries during the course of the audit for year-end adjusting entries. There were no significant audit adjustments identified in our audit procedures.

In addition, we proposed additional disclosures about the details of the Authority's defined contribution retirement plan. Management incorporated our suggested disclosures in the notes to the financial statements.

Disagreements With Management

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

Consultation With Other Accountants

There may be circumstances where the Authority considers consulting with other accountants about accounting and auditing matters. We are not aware of any situation where this occurred during the period.

Major Issues Discussed With Management Prior to Recurring Retention

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

Difficulties Encountered in Performing the Audit

We encountered expected delays in finalizing the audit due to the adjustment relating to the year-end settlement with the Michigan Department of Community Health. In all other respects, we had no difficulty in performing the audit.

Independence

Generally accepted government auditing standards require BDO Seidman, LLP, to be independent both in fact and appearance. We are not aware of any relationships between BDO Seidman, LLP, and the Authority that, in our professional judgment, may reasonably be thought to bear on our independence. We confirm that as of February 16, 2007, and throughout the September 30, 2006, audit, we were independent accountants with respect to the Authority in accordance with the requirements of the standards.

* * * * *

Should you desire further information concerning these matters, Doug Havera or Kristy Daniel will be happy to meet with you at your convenience.

This letter is solely for the internal use of the board and management of Community Mental Health Authority of Clinton, Eaton, and Ingham Counties and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

BDO SEIDMAN, LLP

BDO Seidman, LLP

Certified Public Accountants

BDO Seidman, LLP
Accountants and Consultants

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Kalamazoo, Michigan 49007
Telephone: (269) 382-0170
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February 16, 2007

Community Mental Health Authority of
Clinton, Eaton, and Ingham Counties
812 East Jolly Road, Suite 210
Lansing, Michigan 48910

Members of the Board, Executive Director, and Finance Director:

During the course of our audit of the financial statements of Community Mental Health Authority of Clinton, Eaton, and Ingham Counties (the Authority), for the year ended September 30, 2006, we observed the Authority's significant accounting policies, and certain business, financial, and administrative practices. In planning and performing our audit of the financial statements, we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. As a result of our observations, we noted the following:

Segregation of Duties

During our review of internal controls over cash disbursements, it was noted that the employee responsible for entering invoices for payment is also responsible for generating and mailing disbursements.

Recommendation

While the lack of segregation of duties is mitigated by review of expenditures by program managers and positive pay agreements with the bank, we recommend the Authority reevaluate job responsibilities to separate these duties. At a minimum, we would recommend that another employee match check copies to invoices to ensure disbursements are supported by proper approvals for disbursement.

New Standards

The AICPA has issued eight statements commonly referred to as the *Risk Assessment Standards* to improve the quality and effectiveness of audits. The new standards will result in an overall increased work effort by the auditors as they require auditors to obtain a more in-depth understanding of the Authority's operations and control environment and a more rigorous assessment of the risk of material misstatement of the financial statements.

The AICPA has also issued Statement of Auditing Standard (SAS) No. 103, *Audit Documentation*, which will change the auditors' report date. Historically, our report was dated the last day of fieldwork, although it is often several weeks or more before the actual financial statements are issued. The new standard requires us to date the report when we have received verification that the financial statements have been reviewed by management. This will result in a report date that is close to the date the financial statements are issued. Delays in releasing the financial statements may require us to perform additional procedures to comply with the new standard.

SAS No. 112, *Communicating Internal Control Matters*, provides guidance on communicating matters identified in the audit of the financial statements. There are new terms and guidance on evaluating the severity of control deficiencies.

SAS Nos. 103 and 112 will be effective for the year ending September 30, 2007, while the Risk Assessment Standards will be effective for the year ending September 30, 2008.

* * *

This letter is intended solely for the information and use of the Authority Board, Director, Finance Director, and others within the Authority and should not be used for any other purposes.

We appreciate the cooperation from your staff during our audit of the Authority's financial statements. We are proud to be associated with you and your organization and look forward to many more years of service to the Authority.

Very truly yours,

BDO SEIDMAN, LLP

BDO Seidman, LLP

Certified Public Accountants