

## Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Community Mental Health for Central Michigan	County Isabella
Fiscal Year End 9/30/07	Opinion Date March 19, 2008	Date Audit Report Submitted to State April 1, 2008	

We affirm that:

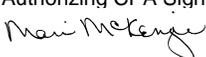
We are certified public accountants licensed to practice in Michigan.

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

- |     | YES                                 | NO                       | Check each applicable box below. (See instructions for further detail.)   |
|-----|-------------------------------------|--------------------------|---|
| 1.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 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.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 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.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds.   |
| 5.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute.   |
| 6.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 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.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years.  |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED.   |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely.  |

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo Certified Public Accountants		Telephone Number 989-793-9830	
Street Address 3023 Davenport		City Saginaw	State MI
Zip 48602			
Authorizing CPA Signature 	Printed Name Mari McKenzie	License Number 10725	

**Community Mental Health  
for Central Michigan**

**Mt. Pleasant, Michigan**

**Annual Financial Statements,  
Auditors' Report  
and  
Single Audit**

**September 30, 2007**

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## Independent Auditors' Report

Community Mental Health for Central Michigan  
Mt. Pleasant, Michigan

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

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

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

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended September 30, 2006, from which such partial information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2008, on our consideration of Community Mental Health for Central Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

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

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
March 19, 2008

**Community Mental Health for Central Michigan  
Management's Discussion and Analysis  
September 30, 2007**

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The management of Community Mental Health for Central Michigan (CMHCM) presents the following overview and analysis of financial activities during the past fiscal year. CMHCM was created as a Mental Health Authority on October 1, 2001 by the joint action of Boards of Commissioners for the Michigan counties of Clare, Gladwin, Isabella, Mecosta, Midland, and Osceola. CMHCM is the successor organization to two separate mental health authorities, Midland-Gladwin Community Mental Health Services and Central Michigan Community Mental Health Services.

Overview of the Financial Statements

Two types of financial statements are provided: Government-wide Statements and Fund Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information of all of CMHCM's assets and liabilities with the difference between assets and liabilities being reported as net assets. Change in net assets serves as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. CMHCM, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds has a narrower focus than that of the government-wide financial statement in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary funds are internal service funds which are held as a self-insurance against future risk. These funds consist of state of Michigan Medicaid and accumulated interest that must be held for future risk or used to provide authorized services to eligible persons. During the fiscal year ended September 30, 2007 the Medicaid internal service fund was fully expended.

**Community Mental Health for Central Michigan  
Management's Discussion and Analysis  
September 30, 2007**

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Comparison with Prior Year

	<u>2007</u>	<u>2006</u>	Increase (Decrease)
<b>Assets</b>			
Current			
Cash and cash equivalents	\$ 12,449,312	\$ 12,761,361	\$ (304,921)
Receivables	645,761	514,634	127,563
Accrued interest	309,534	296,947	12,587
Due from other governmental units	230,704	258,033	(27,329)
Prepaid items	<u>1,370,126</u>	<u>1,481,127</u>	<u>(111,001)</u>
Total current assets	<u>15,005,437</u>	<u>15,312,102</u>	<u>(303,101)</u>
Restricted cash			
Compensated absences	944,776	881,996	62,780
Capital assets	1,412,101	1,275,702	136,399
Internal Service Funds	-	798,061	(798,061)
Due from Internal Service Fund	<u>829,397</u>	<u>141,829</u>	<u>687,568</u>
Total restricted assets	<u>3,186,274</u>	<u>3,097,588</u>	<u>88,686</u>
Total assets	<u>18,191,711</u>	<u>18,409,690</u>	<u>(214,415)</u>
<b>Liabilities</b>			
Payables and accrued payroll	5,862,078	5,738,157	123,921
Compensated absences	<u>944,776</u>	<u>881,996</u>	<u>62,780</u>
Total liabilities	<u>6,806,854</u>	<u>6,620,153</u>	<u>186,701</u>
<b>Fund balance</b>			
Capital assets	1,412,101	1,275,702	136,399
Internal Service Funds	-	798,061	(798,061)
Unrestricted	<u>9,972,756</u>	<u>9,715,774</u>	<u>256,982</u>
	<u>\$ 11,384,857</u>	<u>\$ 11,789,537</u>	<u>\$ (404,680)</u>

**Community Mental Health for Central Michigan  
Management's Discussion and Analysis  
September 30, 2007**

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The above table regroupes and summarizes Assets, Liabilities, and Fund Balances for the Authority as a whole including internal service funds. Please note the following:

1. While there is a net increase in the value of capital assets, there was a major decrease in land and building as a result of the sale of the Gladwin - East building to the Mental Health Facilities Board. This sale was offset by a large purchase of computer servers and work stations and replacement of fully depreciated motor vehicles.
2. Prior to fiscal 2005, CMHCM had a policy of maintaining and increasing internal service funds as a part of its overall risk management strategy. This was done with the contractual consent and encouragement of the Department of Community Health. During fiscal 2005 management became aware of a shift in departmental attitude toward Internal Service Funds from viewing them as prudent risk management tools to looking upon them as evidence of over funding. This led to management's decision to phase out internal service fund arrangements and maintain any fund balances in-house. This process was completed in the fiscal year just ended.
3. Liabilities are short term (generally less than 90 days). CMHCM has long maintained a practice of not borrowing money.

Revenues 2006	65,427,831
Revenues 2007	66,673,351
Increase	1,245,520
Per Cent Increase	1.90%
Expenses 2006	64,574,431
Expenses 2007	67,179,422
Increase	2,604,991
Per Cent Increase	4.03%

The table above indicates the change in operating revenues and expenses from 2006 to 2007. Expenses increased at a higher percentage rate than did revenues.

**Budgets**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>
Total Revenues	\$67,092,984	\$66,651,588	\$66,673,351
Total Expenses	<u>67,566,574</u>	<u>68,090,758</u>	<u>67,179,422</u>
Increase (Decrease) in Fund Balance	(\$473,590)	(\$1,439,170)	(\$506,071)

**Community Mental Health for Central Michigan  
Management's Discussion and Analysis  
September 30, 2007**

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The original operations budget for fiscal 2007 predicted an excess of expense over revenue of \$473,590. During the year, there was a net reduction in state revenues from both the Department of Community Health and the Department of Human Services which caused the deficit to be projected at \$1.4 million. Under-expenditure of the budget allowed the actual deficit to be quite close to the original prediction.

**Strength of Financial Position**

The chart below shows changes in the Authority's financial position for the past two years. Please note the following:

The number at the bottom of the table labeled "days of operations" represents the number of days the Authority could operate at its current level while it received no outside revenue. CMHCM maintains a policy that this number should be at least 29 but not more than 66 days.

	<u>Balance at 9/30/2005</u>	<u>Increase (Decrease)</u>	<u>Balance at 9/30/2006</u>	<u>Increase (Decrease)</u>	<u>Balance at 9/30/2007</u>
Risk Reserves					
Internal Service Funds					
Medicaid	\$ 773,443	\$ (108,786)	\$ 664,657	\$ (664,657)	\$ -
Substance Abuse	62,042	71,361	133,403	(133,403)	-
General Fund	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Internal Service Funds	835,485	(37,425)	798,060	(798,060)	-
Special Revenue Funds					
Fund balance					
Reserve for prepaid items and compensated absences	2,127,837	235,286	2,363,123	(48,221)	2,314,902
Unrestricted	<u>7,474,704</u>	<u>759,943</u>	<u>8,234,647</u>	<u>367,983</u>	<u>8,602,630</u>
Total fund balance	9,602,541	995,229	10,597,770	319,762	10,917,532
Funds available for risk management					
Internal Service Funds	835,485	(37,425)	798,060	(798,060)	-
Unrestricted fund balance	<u>7,474,704</u>	<u>759,943</u>	<u>8,234,647</u>	<u>367,983</u>	<u>8,602,630</u>
	8,310,189	722,518	9,032,707	(430,077)	8,602,630
Actual expense	62,901,431	1,673,000	64,574,431	2,604,991	67,179,422
Days of operation	48	3	51	(4)	47

**Community Mental Health for Central Michigan  
Management's Discussion and Analysis  
September 30, 2007**

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About the Future

As we begin fiscal 2008, the State of Michigan continues to be in a budget crisis. Adjustments to the tax structure were required to balance the state budget. Meanwhile, Community Mental Health for Central Michigan has projected a budget deficit in fiscal 2008 of \$2,360,653. This projection has the effect of reducing days of operations by another 13 days. During fiscal 2008 management expects to take action such that the budget deficit will be reduced for fiscal 2009 and eliminated in fiscal 2010.

**Community Mental Health for Central Michigan**  
**Statement of Net Assets**  
**September 30, 2007 and 2006**

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 12,449,312	\$ 12,761,361
Accounts receivable, net	645,761	514,634
Interest receivable	309,534	296,947
Due from other governmental units	230,704	258,033
Prepaid items	<u>1,370,126</u>	<u>1,481,127</u>
Total current assets	<u>15,005,437</u>	<u>15,312,102</u>
Noncurrent assets		
Cash and cash equivalents - restricted	1,774,173	1,821,886
Capital assets - land	205,000	230,000
Capital assets - depreciable, net	<u>1,207,101</u>	<u>1,045,702</u>
Total noncurrent assets	<u>3,186,274</u>	<u>3,097,588</u>
Total assets	<u>18,191,711</u>	<u>18,409,690</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	4,823,221	3,851,593
Accrued wages and other payroll liabilities	689,061	751,461
Due to other governmental units	<u>349,796</u>	<u>1,135,103</u>
Total current liabilities	<u>5,862,078</u>	<u>5,738,157</u>
Noncurrent liabilities		
Compensated absences	<u>944,776</u>	<u>881,996</u>
Total liabilities	<u>6,806,854</u>	<u>6,620,153</u>
<b>Net assets</b>		
Invested in capital assets	1,412,101	1,275,702
Reserved for risk management	-	798,061
Unreserved	<u>9,972,756</u>	<u>9,715,774</u>
<b>Total net assets</b>	<u>\$ 11,384,857</u>	<u>\$ 11,789,537</u>

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

**Community Mental Health for Central Michigan**  
**Statement of Activities**  
**Year Ended September 30, 2007 with Comparative Totals for 2006**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Functions	Expenses	Charges for Services	Operating Grants and Contributions	2007	2006
<b>Governmental activities</b>					
Health & Welfare - Mental Health	<u>\$ 67,105,803</u>	<u>\$53,863,018</u>	<u>\$ 12,037,148</u>	\$ (1,205,637)	\$ 453,981
<b>General revenues</b>					
Unrestricted investment earnings				773,185	621,601
Restricted investment earnings				<u>27,772</u>	<u>104,405</u>
Total general revenues and contributions				<u>800,957</u>	<u>726,006</u>
Change in net assets				(404,680)	1,179,987
Net assets - beginning of year				<u>11,789,537</u>	<u>10,609,550</u>
<b>Net assets - end of year</b>				<u>\$11,384,857</u>	<u>\$11,789,537</u>

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

**Community Mental Health for Central Michigan**  
**Governmental Funds**  
**Balance Sheet**  
**September 30, 2007 and 2006**

	General Fund	
	<b>2007</b>	2006
<b>Assets</b>		
Cash and cash equivalents	\$ 12,449,312	\$12,761,361
Accounts receivable, net	645,761	514,634
Interest receivable	309,534	296,947
Due from other funds	829,397	141,829
Due from other governmental units	230,704	258,033
Prepaid items	1,370,126	1,481,127
Cash and investments - restricted	<u>944,776</u>	<u>881,996</u>
<b>Total assets</b>	<b><u>\$ 16,779,610</u></b>	<b><u>\$16,335,927</u></b>
<b>Liabilities</b>		
Accounts payable	\$ 4,823,221	\$ 3,851,593
Accrued wages and other payroll liabilities	689,061	751,461
Due to other governmental units	<u>349,796</u>	<u>1,135,103</u>
<b>Total liabilities</b>	<b><u>5,862,078</u></b>	<b><u>5,738,157</u></b>
<b>Fund balances</b>		
Reserved for prepaid items	1,370,126	1,481,127
Reserved for compensated absences	944,776	881,996
Unreserved	<u>8,602,630</u>	<u>8,234,647</u>
<b>Total fund balances</b>	<b><u>10,917,532</u></b>	<b><u>10,597,770</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 16,779,610</u></b>	<b><u>\$16,335,927</u></b>

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

**Community Mental Health for Central Michigan  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
September 30, 2007**

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Total fund balance - governmental funds	\$ 10,917,532
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	3,597,111
Deduct: accumulated depreciation	(2,185,010)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: compensated absences	<u>(944,776)</u>
<b>Net assets of governmental activities</b>	<b><u>\$ 11,384,857</u></b>

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

**Community Mental Health for Central Michigan  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Years Ended September 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>Revenues</b>		
State grants		
Department of Community Health contract	<b>\$ 9,149,629</b>	\$ 9,742,178
Substance abuse	<b>770,078</b>	736,591
Title XX	<b>19,342</b>	19,342
Other state revenues	<b>76,126</b>	41,325
Total state grants	<b><u>10,015,175</u></b>	<u>10,539,436</u>
Federal grants	<b><u>784,398</u></b>	<u>728,081</u>
Contributions - local units		
County appropriations	<b><u>1,145,715</u></b>	<u>1,112,899</u>
Charges for services		
Medicaid - DCH contract	<b>51,314,470</b>	49,359,802
Medicaid - other	<b>649,227</b>	365,428
Northern Espresso program	<b>98,317</b>	88,865
Client and third party pay	<b>898,056</b>	947,863
Inter-county services	<b>391,551</b>	533,306
Other earned contract revenue	<b>511,397</b>	645,144
Total charges for services	<b><u>53,863,018</u></b>	<u>51,940,408</u>
Interest and rents		
Interest	<b><u>773,185</u></b>	<u>621,601</u>
Other revenue	<b><u>91,860</u></b>	<u>485,406</u>
Total revenues	<b><u>66,673,351</u></b>	<u>65,427,831</u>

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

**Community Mental Health for Central Michigan**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Years Ended September 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>Expenditures</b>		
Health & Welfare - Mental Health		
Current		
Personnel costs	<b>\$ 19,442,244</b>	\$ 19,546,598
Operating expenditures	<b>47,272,373</b>	44,517,837
Capital outlay	<b>464,805</b>	509,996
Total expenditures	<b><u>67,179,422</u></b>	<u>64,574,431</u>
Revenues over (under) expenditures	<b>(506,071)</b>	853,400
<b>Other financing sources</b>		
Operating transfer in	<b><u>825,833</u></b>	<u>141,829</u>
Excess of revenues and other sources over expenditures	<b>319,762</b>	995,229
Fund balance, beginning of year	<b><u>10,597,770</u></b>	<u>9,602,541</u>
<b>Fund balance, end of year</b>	<b><u>\$ 10,917,532</u></b>	<u>\$ 10,597,770</u>

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

**Community Mental Health for Central Michigan**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended September 30, 2007**

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Net change in fund balances - total governmental funds	\$ 319,762
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	533,211
Deduct: depreciation expense	(187,381)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with government activities.	
	(798,061)
Sale of capital assets proceeds are recognized as revenues in the governmental funds, but only the gain or loss is recognized in the statement of activities.	
	(209,431)
Some expenses reported in the Statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	<u>(62,780)</u>
<b>Change in net assets of governmental activities</b>	<b><u>\$ (404,680)</u></b>

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

**Community Mental Health for Central Michigan  
Proprietary Fund  
Statement of Net Assets  
September 30, 2007 and 2006**

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	Governmental Activities Internal Service Fund	
	<b>2007</b>	2006
<b>Assets</b>		
Cash and cash equivalents	\$ 829,397	\$ 939,890
<b>Liabilities</b>		
Due to other funds	<b>829,397</b>	141,829
<b>Net assets</b>		
Reserved	\$ -	\$ 798,061

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

**Community Mental Health for Central Michigan  
Proprietary Fund  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Years Ended September 30, 2007 and 2006**

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	Governmental Activities Internal Service Funds	
	<b>2007</b>	2006
<b>Nonoperating revenues</b>		
Interest income	\$ 27,772	\$ 104,405
<b>Transfers</b>		
Operating transfers out - other funds	<u>(825,833)</u>	<u>(141,829)</u>
Change in net assets	<b>(798,061)</b>	(37,424)
Net assets, beginning of year	<u><b>798,061</b></u>	<u>835,485</u>
<b>Net assets, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ 798,061</u></u>

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

**Community Mental Health for Central Michigan  
Proprietary Fund  
Statement of Cash Flows  
Years Ended September 30, 2007 and 2006**

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	Governmental Activities Internal Service Funds	
	<b>2007</b>	2006
<b>Cash flows from noncapital financing activities</b>		
Operating transfers out	<b>\$ (138,265)</b>	(1,028,192)
<b>Cash flows from investing activities</b>		
Proceeds from interest earnings	<u>27,772</u>	<u>104,405</u>
Net decrease in cash	<b>(110,493)</b>	(923,787)
Cash and cash equivalents, beginning of year	<u>939,890</u>	<u>1,863,677</u>
<b>Cash and cash equivalents, end of year</b>	<u><b>\$ 829,397</b></u>	<u>\$ 939,890</u>

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

**Community Mental Health for Central Michigan**  
**Notes to Financial Statements**  
**September 30, 2007**

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**Note 1 - Summary of Significant Accounting Policies**

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

**Reporting Entity**

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 – Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Isabella, Mecosta, Osceola, Clare, Midland and Gladwin Counties.

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

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-

type activities, which rely to a significant extent on fees and charges for support.

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

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

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

**Measurement Focus, Basis of Accounting and Financial Statements Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Community Mental Health for Central Michigan**  
**Notes to Financial Statements**  
**September 30, 2007**

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Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues not related to charges for service to be available if they are collected within 60 days of the end of the current fiscal year end. Charges for service revenues are considered available upon the occurrence of the event. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Fund Accounting**

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

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund – These funds represent amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Community Mental Health for Central Michigan**  
**Notes to Financial Statements**  
**September 30, 2007**

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**Comparative Data**

The comparative information for the year ended September 30, 2006 is not intended to be a complete financial statement presentation. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

**Budgetary Data**

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

**Estimates**

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

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments.

**Receivables and Payables between Funds**

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

**Receivables**

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

Interest receivable represents amounts due the Authority for certificates of deposit that have not yet matured.

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

**Inventories**

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

**Prepaid Items**

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

**Restricted Assets**

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

**Capital Assets**

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

**Community Mental Health for Central Michigan**  
**Notes to Financial Statements**  
**September 30, 2007**

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constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

The Authority does not have infrastructure type assets.

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

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

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

<b>Assets</b>	<b>Years</b>
Equipment and furnishings	3 – 7
Computers	2 – 5
Automobiles	5
Buildings and improvements	7 – 30
Land	Not applicable – not depreciated

**Inpatient Liability**

The amount recorded for inpatient liability is based on management's estimate. This estimate is based on (1) the number of clients at each facility, (2) the number of days each client is at each facility, and (3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated amount due to reimbursements from third parties that are applied to the total cost before the billings are sent to the Authority.

**Deferred Revenue**

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

**Compensated Absences**

The Authority allows employees to carryover into the following year, any unused, paid time off, up to a maximum of 280 hours. All regular full time employees accrue annual leave on a per-pay basis. Amounts accrued vary depending on the employee's length of service with the Authority. Upon termination of employment, annual leave balances are paid at the current rate of pay. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of accumulated vacation leave as a liability. There is no liability for unpaid sick leave since the Authority does not have a policy to pay this amount upon termination of employment.

**Governmental Fund – Fund Balance Reserves and Designations**

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

**Community Mental Health for Central Michigan**  
**Notes to Financial Statements**  
**September 30, 2007**

**Note 2 - Stewardship, Compliance and Accountability**

**Excess of Expenditures over Appropriations**

During the year ended September 30, 2007, the Authority did not incur expenditures in excess of the amounts appropriated in the General Fund, except for capital outlay which exceeded the budget by \$ 316,645

**Note 3 - Deposits and Investments**

*Interest rate risk* – The Authority manages its exposure to declines in fair value by keeping investments sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

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

*Concentration of credit risk* – The Authority’s investment policy requires diversification by security type and institutions in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

*Custodial credit risk – deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. At year end, \$ 14,329,894 of the Authority’s bank balance of \$ 14,646,548 was exposed to credit risk, because it was uninsured and uncollateralized.

**Interfund Receivables and Payables**

The amount of interfund receivables and payables at September 30, 2007 are as follow:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 829,397	\$ -
Internal Service Fund	<u>-</u>	<u>829,397</u>
<b>Totals</b>	<u>\$ 829,397</u>	<u>\$ 829,397</u>

The outstanding balances between funds result mainly from the time lag between transactions are recorded in the accounting system and payments between funds are made.

**Interfund Transfers**

The Risk Management Fund transferred \$825,833 to the General Fund as allowed by the Department of Community Health contract during the fiscal year ended September 30, 2007.

**Community Mental Health for Central Michigan**  
**Notes to Financial Statements**  
**September 30, 2007**

**Note 4 - Due from Other Governmental Units**

As of September 30, this receivable consisted of the following:

	<u>2007</u>	<u>2006</u>
Department of Community Health		
OBRA Grant	\$ 51,951	\$ 100,050
Juvenile Justice Grants	73,744	10,262
Midland County Educational Service		
Agency - Early On Grant	17,873	48,157
Other governmental units	<u>87,136</u>	<u>99,564</u>
	<u>\$ 230,704</u>	<u>\$ 258,033</u>

**Note 5 - Changes in Fixed Assets**

A summary of changes in capital assets is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	<u>\$ 230,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 205,000</u>
Capital assets being depreciated				
Buildings and improvements	921,672	30,190	258,165	693,697
Equipment and furnishings	939,232	37,646	-	976,878
Computers	687,478	395,983	-	1,083,461
Vehicles	<u>641,591</u>	<u>69,392</u>	<u>72,908</u>	<u>638,075</u>
Total capital assets being depreciated	<u>3,189,973</u>	<u>533,211</u>	<u>331,073</u>	<u>3,392,111</u>
Less accumulated depreciation for				
Buildings and improvements	223,943	42,927	73,734	193,136
Equipment and furnishings	796,598	56,283	-	852,881
Computers	623,240	43,773	-	667,013
Vehicles	<u>500,490</u>	<u>44,398</u>	<u>72,908</u>	<u>471,980</u>
Total accumulated depreciation	<u>2,144,271</u>	<u>187,381</u>	<u>146,642</u>	<u>2,185,010</u>
Net capital assets being depreciated	<u>1,045,702</u>	<u>345,830</u>	<u>184,431</u>	<u>1,207,101</u>
Capital assets, net	<u>\$ 1,275,702</u>	<u>\$ 345,830</u>	<u>\$ 209,431</u>	<u>\$ 1,412,101</u>

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

**Note 6 - Due to Other Governmental Units**

As of September 30, this liability consists of the following:

	<u>2007</u>	<u>2006</u>
Michigan Department of Community Health		
State Institutions	\$ 67,171	\$ 321,528
Quality Assurance Assistance Program (QAAP)	<u>282,625</u>	<u>813,575</u>
	<u>\$ 349,796</u>	<u>\$ 1,135,103</u>

**Note 7 - Long Term Liabilities**

The changes in long term liabilities during the 2007 fiscal year are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Compensated absences	<u>\$ 881,996</u>	<u>\$ 62,780</u>	<u>\$ -</u>	<u>\$ 944,776</u>

The entire vested amount is considered long-term as the amount expended each year is expected to be offset by annual leave time earned for the year.

**Leases**

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the financial statements. Lease expense for the fiscal year was approximately \$1.5 million.

**Community Mental Health for Central Michigan**  
**Notes to Financial Statements**  
**September 30, 2007**

At September 30, the Authority was committed, subject to cancellation provisions, for rental payments under operating leases as follows:

Year Ending September 30,	Amount
2008	\$ 1,518,052
2009	1,323,975
2010	1,132,745
2011	178,207
2012	42,792
2013-2017	82,737
	\$ 4,278,508

**Note 8 - Other Information**

**Compliance Audits**

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

**Note 9 - Risk Management**

The Authority purchased coverage with Philadelphia Insurance Companies through Buiten and Associates, LLC. The coverage includes the following:

- Blanket Building & Content, Equipment and Crime Coverage ranging from \$10,000 to \$10,000,000 with \$500 and \$2,500 deductibles.
- Liability coverage including Commercial, Professional, Sexual Abuse/Molestation and Auto ranging from \$100,000 to \$3,000,000 with deductibles of \$500 and \$1,000.

- Directors & Officers/Employment Practices Liability ranging from \$25,000 to \$5,000,000.
- Commercial Umbrella with an annual aggregate of \$10,000,000

**Employee Retirement and Benefit Systems**

Plan Description – The Authority participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all of the Authority's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2006. The Authority's payroll for the employees covered by the system for the year ended December 31, 2006 was \$ 12,841,572.

As of December 31, 2005, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	73
Active plan participants	304
Vested former members	100
 Total	 477

Funding Policy – If a member leaves the Authority or dies, without a retirement allowance or other benefit payable on his/her account, his/her accumulated contributions will be refunded to him/her, if living, or to his/her nominated beneficiary.

**Community Mental Health for Central Michigan**  
**Notes to Financial Statements**  
**September 30, 2007**

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provided non-duty disability and death benefits to members after vesting requirements are met.

**Funding Status and Progress** – The amount shown below as the “pension benefit obligation” is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2006. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0% and (2) 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.

At December 31, 2006, the assets were less than the pension benefit obligation by \$ 2,535,874, determined as follows:

<b>Actuarial Accrued Liability</b>	
Retirees and beneficiaries currently receiving benefits	\$ 10,297,518
Terminated employees not yet receiving benefits	3,689,246
Nonvested terminated employees	21,924
Current employees	
Accumulated employee contributions including allocated investment income	1,147,118
Employer financed	<u>21,673,009</u>
 Total actuarial accrued liability	 36,828,815
 Net assets available for benefits at actuarial value (market value = \$ 34,772,665)	  <u>34,292,941</u>
 Unfunded actuarial accrued liabilities	  <u>\$ 2,535,874</u>
 <b>Additional Information</b>	
Fiscal year beginning	October 1, 2008
Annual required contribution (ARC)	\$ 1,358,640
Amortization factor used - under-funded liabilities (30 years)	0.054719

Three year trend information follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Fund Ratio</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/04	\$ 28,376,998	\$ 31,372,697	\$ (2,995,699)	90%	24%
12/31/05	30,794,755	33,790,614	(2,995,859)	91%	25%
12/31/06	34,292,941	36,828,815	(2,535,874)	93%	20%

**Health Insurance Benefits**

In addition to providing pension benefits through MERS, the Authority, in accordance with agreements with MERS, provides post employment health insurance benefits to certain employees.

**Community Mental Health for Central Michigan**  
**Notes to Financial Statements**  
**September 30, 2007**

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A defined benefit Health Savings Program has been established with MERS for employees that retire on or before October 1, 2004. As of September 30, 2007, there were 29 retired individuals eligible to receive benefits under this program. The retirees are required to pay for a portion of their health care costs based on their age and years of service at retirement. The Authority also pays a portion of these costs, with a maximum per retiree benefit of \$ 400 per month.

A defined contribution Health Savings Program has also been established with MERS for certain employees who are not eligible to receive benefits under the above mentioned defined benefit Health Savings Program. Employees of the Authority become eligible for this benefit six years from date of hire, if they work more than 60 hours or more per bi-weekly pay period. As of September 30, 2007 there were 201 employees eligible for the plan. The Authority will contribute a maximum of \$ 60 per month to MERS for each eligible employee who receives this fringe benefit.

**Community Mental Health for Central Michigan**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**General Fund**  
**Year Ended September 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Between Actual and Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
State grants				
Department of Community Health contract	\$ 9,716,082	\$ 9,234,086	\$ 9,149,629	\$ (84,457)
Substance abuse	897,323	897,323	770,078	(127,245)
Title XX	19,342	19,342	19,342	-
Other state revenues	<u>219,500</u>	<u>219,500</u>	<u>76,126</u>	<u>(143,374)</u>
Total state grants	<u>10,852,247</u>	<u>10,370,251</u>	<u>10,015,175</u>	<u>(355,076)</u>
Federal grants	<u>1,006,039</u>	<u>983,315</u>	<u>784,398</u>	<u>(198,917)</u>
Contributions - local units				
County appropriations	<u>1,112,901</u>	<u>1,112,901</u>	<u>1,145,715</u>	<u>32,814</u>
Charges for services				
Medicaid - DCH contract	50,273,682	50,273,682	51,314,470	1,040,788
Medicaid - other	471,000	524,468	649,227	124,759
Northern Espresso program	90,500	90,500	98,317	7,817
Client and third party pay	1,509,500	1,509,500	898,056	(611,444)
Inter-county services	460,000	460,000	391,551	(68,449)
Other earned contract revenue	<u>519,024</u>	<u>519,024</u>	<u>511,397</u>	<u>(7,627)</u>
Total charges for services	<u>53,323,706</u>	<u>53,377,174</u>	<u>53,863,018</u>	<u>485,844</u>
Interest and rents				
Interest	<u>719,000</u>	<u>719,000</u>	<u>773,185</u>	<u>54,185</u>
Other revenue	<u>79,091</u>	<u>88,947</u>	<u>91,860</u>	<u>2,913</u>
Total revenues	<u>67,092,984</u>	<u>66,651,588</u>	<u>66,673,351</u>	<u>21,763</u>

**Community Mental Health for Central Michigan**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**General Fund**  
**Year Ended September 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Between Actual and Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
Health & Welfare - Mental Health				
Current				
Personnel costs	\$ 20,586,154	\$ 20,132,910	\$ 19,442,244	\$ (690,666)
Operating expenditures	46,830,638	47,809,688	47,272,373	(537,315)
Capital outlay	<u>149,782</u>	<u>148,160</u>	<u>464,805</u>	<u>316,645</u>
Total expenditures	<u>67,566,574</u>	<u>68,090,758</u>	<u>67,179,422</u>	<u>(911,336)</u>
Revenues over (under) expenditures	(473,590)	(1,439,170)	(506,071)	933,099
<b>Other financing sources (uses)</b>				
Operating transfer in (out)	<u>-</u>	<u>1,439,170</u>	<u>825,833</u>	<u>(613,337)</u>
Excess of revenues and other sources over (under) expenditures and other uses	(473,590)	-	319,762	319,762
Fund balance, beginning of year	<u>10,597,770</u>	<u>10,597,770</u>	<u>10,597,770</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 10,124,180</u>	<u>\$ 10,597,770</u>	<u>\$ 10,917,532</u>	<u>\$ 319,762</u>

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on  
an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

Board of Directors  
Community Mental Health for Central Michigan  
Mt. Pleasant, Michigan

We have audited the financial statements of Community Mental Health for Central Michigan as of and for the year ended September 30, 2007, and have issued our report thereon dated March 19, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Community Mental Health for Central Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Mental Health for Central Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Community Mental Health for Central Michigan's internal control over financial reporting.

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

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

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

#### Compliance and Other Matters

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

We noted certain matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated March 19, 2008.

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

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
March 19, 2008

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

Board of Directors  
Community Mental Health for Central Michigan  
Mt. Pleasant, Michigan

Compliance

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

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Mental Health for Central Michigan'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 Community Mental Health for Central Michigan's compliance with those requirements.

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

## Internal Control over Compliance

The management of Community Mental Health for Central Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Community Mental Health for Central Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

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

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

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

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

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
March 19, 2008

**Community Mental Health for Central Michigan**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2007**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Approved Grant Award Amount	Current Year Expenditures
Department of Health and Human Services			
Passed through the State of Michigan Family Independence Agency			
Temporary Assistance WRAP	93.558	\$ 40,000	\$ 40,000
Temporary Assistance CAN		140,485	<u>139,704</u>
			<u>179,704</u>
Passed through the Michigan Department of Community Health			
Developmental Disabilities Basic Support and Advocacy Grant 20070834 (75% of total grant)	93.630	37,500	<u>35,581</u>
Passed through the Michigan Department of Community Health			
Medical Assistance Program 20031634	93.778		
Total received of \$341,356, (75% of total grant)		324,000	<u>256,017</u>
Passed through the Michigan Department of Community Health			
Block Grant 20071324	93.958		
Peer Support Specialist		20,662	15,709
Wraparound services		37,500	31,434
Juvenile Justice Diversion		196,125	143,303
Family Psycho-Education		29,400	<u>12,519</u>
			<u>202,965</u>
Housing and Urban Development			
Shelter Plus Care - Substance Abuse	14.238	28,140	<u>12,932</u>
Total federal financial awards			<u><u>\$ 687,199</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

**Community Mental Health for Central Michigan**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**September 30, 2007**

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**Note 1 - General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of Community Mental Health for Central Michigan. All federal financial awards passed through other government agencies are included on the schedule.

**Note 2 - Basis of Accounting**

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

**Note 3 - Relationship to Basic Financial Statements**

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

**Community Mental Health for Central Michigan**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2007**  
**(Continued)**

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**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes      X   none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes      X   none reported

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

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

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.778	Medical Assistance Program

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

Auditee qualified as low-risk auditee?   X   yes    \_\_\_\_\_ no

**Community Mental Health for Central Michigan**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2007**  
**(Continued)**

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**Section II – Government Auditing Standards Findings**

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

**Section III – Federal Award Findings**

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

**Community Mental Health for Central Michigan  
Summary Schedule of Prior Audit Findings  
September 30, 2007**

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



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March 19, 2008

Management and the Board of Directors  
Community Mental Health for Central Michigan  
Mt. Pleasant, Michigan

We have completed our audit of the financial statements of Community Mental Health for Central Michigan as of and for the year ended September 30, 2007 and have issued our report dated March 19, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the Authority during the audit and met with management on March 19, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Directors, others within the Authority, and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Yeo & Yeo, P.C.  
CPAs and Business Consultants

A handwritten signature in cursive script that reads 'Mari McKenzie'.

Mari McKenzie

Appendix 1  
Communication to Those Charged with Governance

**Responsibilities under generally accepted auditing standards**

As stated in our engagement letter dated September 1, 2007, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

**Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated September 1, 2007.

**Significant Audit Findings**

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Authority during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

**Difficulties Encountered During the Audit**

We encountered no difficulties during the audit.

**Corrected and Uncorrected Misstatements**

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

## **Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

## **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

## **Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

## **Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

## **Other Reports**

Other information that is required to be reported to you is included in the 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, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

In addition, this is the first year a separate examination was performed for compliance issues related to the MDCH contract for the Medicaid program. The Report includes an Independent Accountants' Report and Summary of Findings. Please read all information included in those reports to ensure you are aware of relevant information.

## Appendix II Management Comments

In planning and performing our audit of the financial statements of Community Mental Health for Central Michigan as of and for the year ended September 30, 2007, we considered Community Mental Health for Central Michigan's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

However, during our audit we became aware of a certain matter that is an opportunity for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated March 19, 2008, on the financial statements of Community Mental Health for Central Michigan. Our comments and recommendations regarding that matter are:

### **CREDIT CARD POLICY**

In the current year we noted that the Authority has no formal credit card use policy. Since the Authority uses credit cards, we suggest that management adopt an acceptable policy that meets all internal requirements of the Authority as well as any requirements by the Michigan Department of Treasury. This policy should address the custody and security of the cards, whom is allowed to use the cards, include timely reconciliation by management, include all items allowed to be charged and those not allowed, include a statement that all charges should be supported by adequate documentation, and address who is to receive the statements.