Kent County CMH Authority (a component unit of the County of Kent, Michigan)

Financial Statements and Supplemental Material

Years Ended September 30, 2006 and 2005

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

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

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Network 180	Kent County

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
9/30/06	02/08/07	2/23/07

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	616-774-7000		
Street Address	**City**	**State**	**Zip**
99 Monroe Avenue NW	Grand Rapids	MI	49503

Authorizing CPA Signature	Printed Name	License Number
Lawrence Oberst	Lawrence Oberst	1101014573

Kent County CMH Authority

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Independent Auditors' Report

Kent County CMH Authority
Grand Rapids, Michigan

We have audited the accompanying financial statements of Kent County CMH Authority (the Authority), a proprietary fund component unit of the County of Kent, Michigan, as of and for the years ended September 30, 2006 and 2005, 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 Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Authority, as of September 30, 2006 and 2005, and the results of its operations and cash flows for the years 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 8, 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 performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis and the Analysis of Funding Progress - Employee Retirement System are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying supplemental material listed in the table of contents, as well as the accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

BDO Seidman, LLP

Grand Rapids, Michigan
February 8, 2007

Management's Discussion and Analysis

This section of Kent County CMH Authority's annual financial report presents management's discussion and analysis of activities and financial performance during the fiscal year ended September 30, 2006. Please review it in conjunction with the Independent Auditor's Report, the Financial Statements, the Notes to the Financial Statements, and the Supplemental Material presented in this financial report.

Kent County CMH Authority is doing business as Network180, (formerly doing business as Community Mental Health and Substance Abuse Network of West Michigan), and is an Authority established by the State of Michigan and the County of Kent. The mission of the Authority is to shape our community in ways that support the full potential and valued place of each person, especially those at risk of or impacted by developmental disability, emotional disorder, mental illness, and substance use disorder.

The Kent County Board of Commission appoints the board members governing the Authority. The County also provides annual financial support to the Authority, and the Authority is considered a component unit for reporting purposes in the audit report of the County of Kent.

This section contains information on the basic financial statements of the Authority together with any required explanation that would be essential to acquire a full understanding of the data contained therein.

FINANCIAL POSITION SUMMARY

Analysis of assets, liabilities and net assets over time serves as a useful indicator of the Authority's financial position. The Authority's assets exceed liabilities by $11.4 million for the period ended September 30, 2006. This represents an approximate $500,000 increase from the prior period ended September 30, 2005.

A condensed summary of the Authority's statement of net assets is shown below:

September 30,		**2006**		2005
Assets:				
Current assets	**$**	**27,009,629**	$	23,645,889
Net capital assets		**1,256,850**		206,834
Total Assets		**28,266,479**		23,852,723
Liabilities:				
Current liabilities		**16,835,543**		12,958,187
Net Assets:				
Invested in capital assets		**1,256,850**		206,834
Unrestricted		**10,174,086**		10,687,702
Total Net Assets		**11,430,936**		10,894,536
Total Liabilities and Net Assets	**$**	**28,266,479**	$	23,852,723

The amount of net assets invested in capital assets is $1,256,850 or 11.0% of net assets. Net assets designated for risk fund is $1,980,984 or 17.3% of net assets. Undesignated, unrestricted net assets of $8,193,102 represent 71.7% of total net assets.

REVENUES

A summary of operating revenues for the fiscal year ended September 30, 2006, and the amount and percentage of change in relation to the prior year is as follows:

	2006 Amount	Percent of Total	Increase (Decrease) from 2005	Percent Increase (Decrease)
Operating Revenues:				
Medicaid funds	**$ 71,643,838**	**71.4%**	$ 5,843,282	8.9%
State general funds	**16,761,696**	**16.7**	1,289,120	8.3
Federal and State grants	**4,470,912**	**4.5**	(40,862)	(0.9)
Waiver programs	**2,887,247**	**2.9**	65,037	2.3
General revenue	**4,596,832**	**4.5**	946,911	25.9
Total Operating Revenues	**$ 100,360,525**	**100.0%**	$ 8,103,488	8.8%

EXPENSES

A summary of operating expenses for the fiscal year ended September 30, 2006, and the amount and percentage of change in relation to the prior year is as follows:

	2006 Amount	Percent of Total	Increase (Decrease) from 2005	Percent Increase (Decrease)
Operating Expenses:				
Developmental disabilities division	**$ 38,286,137**	**37.1%**	$ 313,657	0.8%
Adults with mental illness division	**35,172,765**	**34.0**	2,925,069	9.1
Substance use disorder division	**8,525,513**	**8.3**	1,178,253	16.0
Children and families division	**6,772,564**	**6.6**	823,592	13.8
Other programs	**9,806,111**	**9.5**	4,131,785	72.8
Management and general	**4,671,587**	**4.5**	565,210	13.8
Total Operating Expenses	**$ 103,234,677**	**100.0%**	$ 9,937,566	10.7%

Fiscal Year Ended September 30,	**2006**	2005
Operating loss	**$ (2,874,152)**	$ (1,040,074)
Non-operating revenue	**1,248,166**	672,379
Kent County transfer	**2,162,386**	2,162,386
Increase in Net Assets	**536,400**	1,794,691
Net Assets, beginning of year	**10,894,536**	9,099,845
Net Assets, end of year	**$ 11,430,936**	$ 10,894,536

FINANCIAL OPERATIONS HIGHLIGHTS

- Total operating revenues increased by 8.8% or $8,103,488 from $92,257,037 to $100,360,525 in 2006 principally due to the increases in Medicaid funding.

- Operating expenses increased by 10.7% or $9,937,566 from $93,297,111 to $103,234,677 in 2006 principally due to increased utilization in the adults with mental illness and substance use disorder divisions and an increase in the quality assurance assessment program.

- Non-operating revenue increased by 85.6% or $575,787 from $672,379 to $1,248,166 in 2006 principally due to additional investment in certificates of deposit and better market performance of investments resulting in an increase in investment income.

- The total increase in net assets in 2006 was $536,400. The Authority board approved funding various programs and expenses during the year through the use of fund balance. These programs included a public inebriates program, substance use disorder program, other service related programs, and depreciation expense. The total amount approved for these programs was $561,850.

- The Authority's contract reconciliation with the State of Michigan identified $2,220,072 of Medicaid savings, and State general fund carry forward of $840,664, both of which are available for fiscal year 2006/2007. The Authority lapsed $234,333 of State general funds back to the State of Michigan.

SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash for the past two years:

Fiscal Year Ended September 30,	**2006**	2005
Net cash provided by operating activities	**$ 1,771,408**	$ 1,130,757
Net cash provided by non-capital financing activity	**2,162,386**	2,124,886
Net cash used in capital and related financing activities	**(1,193,601)**	(48,107)
Net cash used in investing activities	**(9,593,001)**	(6,827,621)
Decrease in Cash	**(6,852,808)**	(3,620,085)
Cash, beginning of year	**13,680,616**	17,300,701
Cash, end of year	**$ 6,827,808**	$ 13,680,616

FINANCIAL STATEMENTS

The Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Government Accounting Standards Board (GASB). It also follows, where appropriate, statements and interpretations by the Financial Accounting Standards Board (FASB). Revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized (except land and construction in progress) and are depreciated over their useful lives. See the notes to the financial statements for a summary of the board's significant accounting policies.

Respectfully submitted,

Thomas Elzinga
Deputy Director of Administrative Services

Robin DeYoung
Accounting Manager

Kent County CMH Authority

Statements of Net Assets

September 30,	**2006**	2005
Current Assets		
Cash and cash equivalents (Notes 2 and 3)	**$ 6,827,808**	$ 13,680,616
Investments (Note 3)	**18,341,167**	7,500,000
Accounts receivable	**794,567**	667,849
Due from State of Michigan	**575,467**	1,239,435
Due from Kent County	**352,362**	341,709
Prepaids and other current assets	**118,258**	216,280
Total Current Assets	**27,009,629**	23,645,889
Capital Assets		
Non-depreciable	**150,000**	-
Depreciable, net of accumulated depreciation (Note 4)	**1,106,850**	206,834
Total Capital Assets	**1,256,850**	206,834
Total Assets	**$ 28,266,479**	$ 23,852,723
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 10,378,111**	$ 9,752,734
Due to State of Michigan	**2,618,052**	1,729,776
Due to Kent County	**283,256**	283,256
Deferred revenue	**3,556,124**	1,192,421
Total Current Liabilities	**16,835,543**	12,958,187
Commitments (Notes 5, 6, 8 and 9)		
Net Assets		
Invested in capital assets	**1,256,850**	206,834
Unrestricted	**10,174,086**	10,687,702
Total Net Assets	**11,430,936**	10,894,536
Total Liabilities and Net Assets	**$ 28,266,479**	$ 23,852,723

See accompanying notes to financial statements.

Kent County CMH Authority

Statements of Revenues, Expenses and Changes in Net Assets

Year ended September 30,	**2006**	2005
Operating Revenues		
Medicaid/PEPM	**$ 70,137,884**	$ 64,448,845
State general fund	**16,761,696**	15,472,576
Substance abuse division	**7,607,120**	7,053,241
Other program revenue	**2,456,071**	2,042,218
Adult benefit waiver	**1,833,987**	1,871,519
Children's model waiver	**963,038**	858,504
Access center	**215,461**	237,222
Miscellaneous	**385,268**	272,912
Total Operating Revenues	**100,360,525**	92,257,037
Operating Expenses		
Program services:		
Developmental disabilities division	**37,323,098**	37,113,976
Adults with mental illness division	**35,172,765**	32,247,696
Substance use disorder division	**8,525,513**	7,347,260
Children and families division	**6,772,564**	5,948,972
Local match/quality assurance assessment program	**5,359,791**	1,696,389
Access center	**3,397,187**	3,420,179
Children's model waiver	**963,039**	858,504
Other Federal and State grants	**848,093**	337,657
Training	**201,040**	220,101
Administration	**4,671,587**	4,106,377
Total Operating Expenses	**103,234,677**	93,297,111
Operating Loss	**(2,874,152)**	(1,040,074)
Non-Operating Revenue		
Investment income	**1,248,166**	672,379
Transfers From Kent County	**2,162,386**	2,162,386
Increase in Net Assets	**536,400**	1,794,691
Net Assets, beginning of year	**10,894,536**	9,099,845
Net Assets, end of year	**$ 11,430,936**	$ 10,894,536

See accompanying notes to financial statements.

Kent County CMH Authority

Statements of Cash Flows

Year ended September 30,	**2006**	2005
Operating Activities		
Cash received from providing services	**$ 104,139,100**	$ 93,532,624
Cash paid to suppliers	**(96,540,647)**	(86,749,457)
Cash paid to employees	**(5,827,045)**	(5,652,410)
Cash Provided by Operating Activities	**1,771,408**	1,130,757
Non-Capital Financing Activity		
Payments from Kent County	**2,162,386**	2,124,886
Capital Activity		
Purchase of capital assets	**(1,193,601)**	(48,107)
Investing Activities		
Interest income	**1,248,166**	672,379
Purchase of certificate of deposits	**(10,841,167)**	(7,500,000)
Cash Used in Investing Activities	**(9,593,001)**	(6,827,621)
Decrease in Cash and Cash Equivalents	**(6,852,808)**	(3,620,085)
Cash and Cash Equivalents, beginning of year	**13,680,616**	17,300,701
Cash and Cash Equivalents, end of year	**$ 6,827,808**	$ 13,680,616
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	**$ (2,874,152)**	$ (1,040,074)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	**143,585**	115,542
(Increase) decrease in:		
Accounts receivable	**(137,371)**	(254,207)
Due from State of Michigan	**663,968**	249,855
Prepaids and other current assets	**98,022**	(100,937)
Increase in:		
Accounts payable and accruals	**2,989,080**	1,337,664
Due to State of Michigan	**888,276**	822,914
Net Cash Provided by Operating Activities	**$ 1,771,408**	$ 1,130,757

See accompanying notes to financial statements.

1. Nature of Organization

Kent County CMH Authority (Authority) was created by the County of Kent, Michigan Board of Commission (primary government), to operate, control, and manage an integrated behavioral healthcare system in order to serve Kent County (the County). The Authority does business as Network180 (formerly doing business as Community Mental Health and Substance Abuse Network of West Michigan). The Authority is governed by a community mental health services board, which is appointed by the County of Kent Board of Commission. The primary government also provides financial support annually to the Authority. Accordingly, the Authority is considered to be a component unit of the County and is discretely presented in the financial statements of the County.

2. Significant Accounting Policies

Basis of Accounting

These financial statements have been prepared using proprietary fund accounting. Revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual. Until November 30, 1989, the Authority followed all Governmental Accounting Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. After November 30, 1989, the Authority elected to apply only GASB pronouncements.

Revenues from premiums, state grants, client service, and federal grants are reported as operating revenues. Transactions that are capital, financing, or investing related are reported as non-operating revenues. All expenses related to operating the Authority are reported as operating expenses.

Cash and Cash Equivalents

Cash is on deposit in the County's Pooled Cash and Investment System (Money Max). Interest income earned is included in the pooled funds. Only the Authority's portion of this pool is reported on the balance sheet. Additional cash and cash equivalents are held at commercial banks.

Receivables and Payables

Accounts receivable, representing outstanding balances on charges for services, are considered fully collectible.

Transactions between the Authority and various departments of the State of Michigan that are representative of service provider/purchaser and borrowing arrangements outstanding at year-end are reported as "due from/to State of Michigan."

Transactions between the Authority and provider agencies that represent the differences outstanding at year-end between amounts advanced to agencies and qualifying expenditures are included in accounts receivable/payable and accruals.

Capital Assets

Capital assets are recorded at cost. Routine maintenance and repairs are charged to operations, as incurred. Upon sale or retirement, the related cost and accumulated depreciation are removed with the resulting gain or loss reflected in operations.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from 3-10 years.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets is the Authority's investment in capital assets, net of accumulated depreciation.

Claims Liability

Under the State of Michigan's Managed Care Specialty Services Program, the Authority is responsible for processing and paying all claims related to required services provided. The cost of these services includes estimates of payments to be made on claims reported and estimates of services rendered but not reported to the Authority as of the balance sheet date.

Self-Insurance Plans

The Authority participates in a self-insurance program for dental benefits. Benefit Administration is outsourced. Claims are submitted directly to the administrator and payments are processed weekly. Total expense charged to operations for costs incurred for the years ended September 30, 2006 and 2005 amounted to $72,300 and $59,000, respectively.

Compensated Absences

Employees are granted vacation or paid time off leave in varying amounts based on length of service. Depending on classification, employees may not accumulate over 37½ days of vacation leave in any one calendar year. Upon termination, employees are paid for unused vacation at their current rates. It is the Authority's policy to recognize the cost of vacation pay at the time the liability is incurred.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash Deposits and Investments

Investment Policy

The Authority has a Board policy on investments. The purpose of the policy is to safeguard funds on behalf of the Authority, to assure availability of operating and capital funds when needed, and to preserve capital while providing the highest investment return with maximum security.

The investment policy applies to all cash and investments owned by the Authority.

The primary objective of investment activities, in priority order, are safety, diversification, liquidity and return on investment. Standards of care that are applied to the investment program include safekeeping, custody, prudence, ethics and conflicts of interest.

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 and who are also members of a federal or national insurance corporation.

Custodial Credit Risk Related to Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At September 30, 2006 and 2005 the bank balances were $22,914,702 and $11,856,462, respectively, of which $22,714,702 and $11,756,462 were exposed to custodial credit risk since they were uninsured and uncollateralized. The Authority's investment policy mitigates custodial credit risk related to deposits by limiting the types of financial entities where it places deposits.

Investments

State statutes and Board resolutions authorize the Authority to invest in:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- United States government or federal agency obligation repurchase agreements.
- Banker's acceptances of United States banks.
- Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating agency.
- Obligations described above if purchased through an inter-local agreement under the urban cooperation act of 1967.
- Investment pools organized under the surplus funds investment pool act of 1982.
- Investment pools organized under the local government investment pool act of 1985.

At September 30, 2006 and 2005, the Authority had $3,927,905 and $10,064,299, respectively, in the Kent County investment pool, which had a maturity of less than one year and is classified as cash and cash equivalents in the statements of net assets.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates could adversely affect the value of a deposit or investment. The Authority's investment policy minimizes interest rate risk by structuring the investment portfolio so that security maturity dates provide cash to meet ongoing operating requirements, by varying security maturity dates and by limiting the average maturity of the portfolio.

Custodial Credit Risk Related to Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investment policy mitigates custodial credit risk related to investments by limiting the types of financial entities with which it invests.

Investments in the Kent County investment pool are categorized in the County's financial statements to give an indication of the level of risk assumed by Kent County at year end. It is not feasible to allocate the level of risk to the various funds and component units of the County. Accordingly, the Authority's investments are not categorized in this report. The Authority had no other investments subject to custodial credit risk at September 30, 2006 and 2005.

Credit Risk

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. The Authority does not have an investment policy that limits credit risk.

At September 30, 2006 and 2005, the Authority's investment in the Kent County investment pool was not rated and its credit exposure as a percentage of total investments was 100%.

Concentrations of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer.

The Authority's investment policy states that with the exception of United States Treasury Securities and authorized investment pools, no more than 50% of the total investment portfolio shall be invested in a single security type or with a single financial institution. The Authority does not have an investment policy that limits the amount that may be invested in any one issuer. Excluding pooled investments, no single investment exceeded 5% of total investments at September 30, 2006 or 2005.

4. Capital Assets

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

	Balance, October 1, 2005	Increase	Decrease	Balance, September 30, 2006
Capital assets				
Land	$ -	$ 150,000	$ -	$ 150,000
Land improvements	-	110,000	-	110,000
Building	-	792,288	-	792,288
Equipment and furniture	936,136	141,313	(133,760)	943,689
Total at historical cost	936,136	1,193,601	(133,760)	1,995,977
Less accumulated depreciation				
Land improvements	-	11,000	-	11,000
Building	-	39,614	-	39,614
Equipment and furniture	729,302	92,971	(133,760)	688,513
Total accumulated depreciation	729,302	143,585	(133,760)	739,127
Total Invested in Capital Assets, net	$ 206,834	$1,050,016	$ -	$ 1,256,850

Depreciation expense of $75,000 and $66,585 is recorded in administration and access center expenses, respectively.

5. Retirement Plans

Defined Benefit Plan

Plan Description

The Authority's defined benefit pension plan provides retirement, disability and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer public employee pension plan.

The Authority establishes and amends the benefit provisions of the participants in the plan. The plan may be obtained by writing the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The Authority is required to contribute at an actuarially determined rate. The contribution requirements of the Authority are established and may be amended by MERS. Employees are required to contribute 3.545% of their payroll to the Plan. The required contributions were determined as part of the December 31, 2003 actuarial valuation, using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return and (b) projected salary increases of 4.5% per year.

Annual Pension Cost

For the years ended September 30, 2006 and 2005, the Authority's annual pension cost was $196,866 and $240,869, respectively, and the actual amount contributed was $188,953 and $239,552, respectively.

Trend Information

Trend information consists of the following:

Fiscal Year Ended September 30,	Annual Required Contribution (ARC)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	$ 171,384	$ 196,866	72.7%	$ 53,840
2005	-	240,869	80.9	45,927
2004	-	240,373	81.4	44,610

Required supplementary material regarding the Plan is presented on page 21.

Other Postemployment Benefits

In addition to the pension benefits described above, the Authority provides post-retirement health care insurance for employees who are eligible to retire under the Authority's retirement plan, as long as the retiree is not covered by another employer's health care plan or a health care plan offered by their spouse's employer. The Authority pays $200 per month towards the health care insurance premium for a retiree with 25 years of service. Retirees with less than 25 years of service receive a pro-rata credit based on years of service in relation to 25 years. Currently, there are no retirees who receive health care benefits from the Authority.

6. Noncancelable Lease Agreements

The Authority has entered into noncancelable operating lease agreements on behalf of various agencies for the purpose of providing housing to the developmentally disabled. The Authority also leased office space for the Access Center at 833 Lake Drive SE, Grand Rapids, Michigan under agreements that expired in fiscal year 2006. The Authority purchased the property for $1,052,288 in December 2005.

Future minimum rental payments are as follows:

Year ending September 30,	
2007	$204,465
2008	190,594
2009	56,002
2010	36,300

The Authority paid rental expense under these lease agreements of $254,820 and $391,416 during 2006 and 2005, respectively.

7. Related Party Transactions

The County owns the land and the building in which the Authority conducts its operations. The Authority paid $1 in rent to the County during both 2006 and 2005.

8. Contingencies

The Authority provides mental health services primarily to residents of Kent County through agencies in the Kent County area. The Authority is funded primarily through contracts with the Michigan Department of Community Health, based on actual expenditures incurred. Final settlements of amounts received are subject to possible adjustments resulting from audits by the State of Michigan. Such adjustments are not expected to materially affect the financial position of the Authority.

9. Financing of Pending Managed Care Risk Loss Corridor

Effective October 1, 1998, the Authority began operating as a managed care provider to the State of Michigan. The Authority bears all costs up to 107.5% of the annual negotiated contract. All costs above 107.5% are borne by the State of Michigan. The Authority has designated a portion of net assets and funded an amount to cover the risk exposure under its contract with the State of Michigan.

Required Supplemental Material

Analysis of Funding Progress - Employee Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2005	$ 14,020,055	$ 11,918,304	$ (2,101,751)	117.6	$ 5,405,594	(38.88)
December 31, 2004	$ 12,858,549	$ 10,663,792	$ (2,194,757)	120.6	$ 5,369,294	(40.88)
December 31, 2003	$ 11,186,319	$ 8,343,434	$ (2,842,885)	134.1	$ 5,115,767	(55.6)

Supplemental Material

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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*

Kent County CMH Authority
Grand Rapids, Michigan

We have audited the financial statements of Kent County CMH Authority (the Authority), a proprietary fund component unit of the County of Kent, Michigan, as of and for the years ended September 30, 2006 and 2005, and have issued our report thereon dated February 8, 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 assurance 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 operations 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.*

This report is intended solely for the information and use of the board, 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

Grand Rapids, Michigan
February 8, 2007

BDO Seidman, LLP
Accountants and Consultants

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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

Kent County CMH Authority
Grand Rapids, Michigan

Compliance

We have audited the compliance of Kent County CMH Authority (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 summary of auditors' 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 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 consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of 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 grant agreements 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 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 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 grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board, 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

Grand Rapids, Michigan
February 8, 2007

Kent County CMH Authority

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

Federal Grantor *Pass-Through Grantor* *Program Title*	*Federal CFDA Number*	*Federal Expenditures*
U.S. Department of Health and Human Services		
Passed Through Michigan Department of Community Health:		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	$ 39,860
Substance Abuse and Mental Health Services Grant	93.243	495,584
Making Sobriety Attractive	93.276	95,484
Child Care Consultation	93.575	72,698
State Children's Insurance Program:		
ABW	93.767	792,367
MI Child	93.767	71,483
Medical Assistance Programs - OBRA	93.778	348,226
Strong Beginnings	93.926	68,795
Block Grants for Community Mental Health:		
Wrap-Around Respite Grant	93.958	26,267
Juvenile Justice Diversion Project	93.958	50,000
Consumer Run Drop-In	93.958	9,800
Cultural Sensitivity Training	93.958	26,108
DBT Training and Expansion	93.958	22,469
Pain Management in Older Adults	93.958	69,137
Integrated Dual Disorders Treatment	93.958	58,689
Integrated Dual Disorders Treatment Training	93.958	69,202
Parent Management Training - Oregon Model	93.958	12,500
Block Grants for Prevention and Treatment of Substance Abuse:		
Treatment/Women's Specialty/SA ABW	93.959	1,953,837
CA Administration	93.959	136,043
Prevention	93.959	681,057
Total Expenditures of Federal Awards		$ 5,099,606

Note to Schedule of Expenditures of Federal Awards

Note 1

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.

See accompanying independent auditors' report.

Summary of Auditors' Results and Schedule of Findings and Questioned Costs

Section I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported

An unqualified opinion was issued on the compliance report for major programs.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) or Circular A-133?	No

Identification of major programs:

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

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.

Kent County CMH Authority

Schedule of Expenses

Year ended September 30, 2006	Developmental Disabilities Division Budget	Actual	Variance Positive (Negative)
Expenses			
Assessment and evaluation	$ 312,146	$ 350,304	$ (38,158)
Clubhouse program	20,270	4,920	15,350
Community living supports	80,243	27,777	52,466
Day Programs	369,840	369,840	-
Electroconvulsive therapy	17,304	(3,918)	21,222
Enhanced health care	1,900,417	970,744	929,673
Home leases	211,236	210,523	713
Housing assistance	1,634,908	1,416,366	218,542
Innovation plans	-	59,158	(59,158)
Integrated employment	1,374,177	1,398,222	(24,045)
Other skill building	5,285,136	5,540,354	(255,218)
Out of county	429,456	345,611	83,845
Outpatient services	50,000	-	50,000
Personal assistance	473,337	128,697	344,640
Pre-admission screening and annual resident review (PASARR)	185,076	177,932	7,144
Prevention	24,852	24,852	-
Respite care	284,630	170,881	113,749
Self-determination	782,500	251,731	530,769
Specialized residential	21,513,252	21,491,582	21,670
State inpatient services	1,294,014	951,044	342,970
Support service coordination	3,605,533	3,436,478	169,055
	$39,848,327	$ 37,323,098	$ 2,525,229

Kent County CMH Authority

Schedule of Expenses

Year ended September 30, 2006	Adults with Mental Illness Division Budget	Actual	Variance Positive (Negative)
Expenses			
Assertive community treatment	$ 2,124,000	$ 2,023,993	$ 100,007
Assessment and evaluation	128,250	97,824	30,426
Case management	5,453,376	5,817,900	(364,524)
Clubhouse program	347,808	348,808	(1,000)
Community Living Supports	790,224	802,778	(12,554)
Electroconvulsive therapy	50,000	53,178	(3,178)
Emergency services	849,716	782,220	67,496
Enhanced health care	955,613	953,996	1,617
Housing assistance	100,000	131,663	(31,663)
Innovation plans	150,000	160,582	(10,582)
Integrated employment	704,104	720,170	(16,066)
Local inpatient service	7,986,885	7,551,520	435,365
Medication	623,415	877,596	(254,181)
Mental health clinic	705,127	667,205	37,922
Michigan rehab services	85,050	82,050	3,000
Out of county	139,020	236,108	(97,088)
Outpatient services	572,477	213,076	359,401
Partial hospitalization	281,460	278,296	3,164
Peer operated support services	325,042	440,366	(115,324)
Pre-admission screening and annual resident review (PASARR)	452,250	367,830	84,420
Prevention	5,105	4,882	223
Self-determination	-	12,484	(12,484)
Specialized residential	8,515,118	8,336,700	178,418
State inpatient services	3,756,564	3,779,257	(22,693)
Support service coordination	398,505	432,283	(33,778)
	$35,499,109	$35,172,765	$ 326,344

Kent County CMH Authority

Schedule of Expenses

Year ended September 30, 2006	Substance Use Disorder Division Budget	Actual	Variance Positive (Negative)
Expenses			
Care coordination	$ 318,765	$ 319,883	$ (1,118)
Family skills development	424,400	426,567	(2,167)
HIV/AIDS training	116,392	45,050	71,342
Housing assistance	100,000	137,733	(37,733)
Innovation plans	-	9,543	(9,543)
Liquor tax	16,000	16,000	-
Medications	67,500	151,906	(84,406)
Methadone	399,965	444,108	(44,143)
Outpatient services	1,165,289	1,054,302	110,987
Prevention	1,009,583	959,106	50,477
Public inebriate shelter	15,000	11,250	3,750
Quality assurance assessment program	94,837	90,357	4,480
Sober living unit	137,928	158,984	(21,056)
Specialized residential	2,156,443	2,210,705	(54,262)
State disability assistance	165,104	159,104	6,000
Sub acute detox	350,000	357,960	(7,960)
Administrative/access center	1,582,482	1,972,955	(390,473)
	$ 8,119,688	$ 8,525,513	$ (405,825)

Kent County CMH Authority

Schedule of Expenses

Year ended September 30, 2006	Children and Families Division Budget	Actual	Variance Positive (Negative)
Expenses			
Assessment and evaluation	$ 17,486	$ 29,023	$ (11,537)
Case management	1,482,972	1,499,792	(16,820)
Family skill development	888,419	656,907	231,512
Home based	402,999	334,937	68,062
Innovation plans	-	43,728	(43,728)
Local inpatient service	654,240	942,972	(288,732)
Medications	14,569	28,197	(13,628)
Mental health clinic	236,487	375,365	(138,878)
Out of county	3,000	16,476	(13,476)
Outpatient services	-	65,974	(65,974)
Partial hospitalization	74,562	66,842	7,720
Prevention	1,400,102	1,292,088	108,014
Respite care	297,818	357,260	(59,442)
Risk pool	76,980	-	76,980
Specialized residential	894,263	919,579	(25,316)
State inpatient services	152,878	143,424	9,454
	$ 6,596,775	$ 6,772,564	$ (175,789)

Kent County CMH Authority

Schedule of Expenses

Year ended September 30, 2006	Access Center Budget	Access Center Actual	Access Center Variance Positive (Negative)
Expenses			
Consultants	$ 334,720	$ 302,567	$ 32,153
Depreciation	94,664	68,585	26,079
Fringe benefits	715,960	725,037	(9,077)
Janitorial service	26,637	25,312	1,325
Management information systems projects	8,275	1,085	7,190
Medications	258,000	239,283	18,717
Memberships and subscriptions	1,150	615	535
Office equipment and furniture	24,750	29,984	(5,234)
Office supplies	18,700	20,669	(1,969)
Postage	3,500	2,017	1,483
Rent	99,906	90,698	9,208
Repairs and maintenance	78,043	72,021	6,022
Salaries and wages	2,701,220	2,638,830	62,390
Security	118,450	119,324	(874)
Telephone and internet	51,300	35,099	16,201
Training	32,700	18,834	13,866
Transportation services	66,000	110,254	(44,254)
Travel	8,700	6,244	2,456
Utilities	49,300	41,728	7,572
Miscellaneous	3,150	2,739	411
Substance use disorder division allocation	(1,035,102)	(1,153,738)	118,636
	$ 3,660,023	$ 3,397,187	$ 262,836

Kent County CMH Authority

Schedule of Expenses

Year ended September 30, 2006	Training Budget	Training Actual	Training Variance Positive (Negative)
Expenses			
Consultants	$ 479	$ 478	$ 1
Fringe benefits	30,000	28,398	1,602
Janitorial service	2,675	2,626	49
Memberships and subscriptions	250	75	175
Office equipment and furniture	3,050	2,052	998
Office and educational supplies	7,800	5,107	2,693
Postage	1,200	1,115	85
Rent	4,600	4,367	233
Repairs and maintenance	4,850	10,509	(5,659)
Salaries and wages	147,800	129,231	18,569
Telephone and internet	2,000	1,729	271
Training	4,000	2,318	1,682
Travel	2,000	580	1,420
Utilities	10,650	12,398	(1,748)
Miscellaneous	200	57	143
	$ 221,554	$ 201,040	$ 20,514

Kent County CMH Authority

Schedule of Expenses

Year ended September 30, 2005	Administration Budget	Administration Actual	Variance Positive (Negative)
Expenses			
Audit	$ 20,000	$ 19,800	$ 200
Community promotion	54,000	74,302	(20,302)
Consultants	629,020	539,466	89,554
Depreciation	107,800	75,000	32,800
Fringe benefits	854,496	781,362	73,134
Insurance and bonds	27,500	31,430	(3,930)
Janitorial service	11,575	11,378	197
Legal	187,000	152,831	34,169
Management information systems projects	138,000	130,803	7,197
Memberships and subscriptions	29,400	46,555	(17,155)
Office equipment and furniture	121,945	121,211	734
Office supplies	24,800	28,218	(3,418)
Postage	8,000	9,721	(1,721)
Rent	20,000	16,441	3,559
Repairs and maintenance	21,000	47,349	(26,349)
Salaries and wages	3,123,780	3,126,242	(2,462)
Telephone and internet	48,200	54,318	(6,118)
Training	60,100	49,295	10,805
Travel	56,700	70,277	(13,577)
Utilities	50,050	56,329	(6,279)
Miscellaneous	28,875	29,543	(668)
Substance use disorder division allocation	(547,380)	(800,284)	252,904
	$ 5,074,861	$ 4,671,587	$ 403,274

Kent County CMH Authority

Summary of Budgeted, Reported and Audited Amounts - Substance Abuse Coordinating Agency Schedule A

For the year ended September 30, 2006

Fund Source	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures	Variance (Audited-Reported)	Local Match Funds
A State Agreement					
1 Community Grant	$ 3,663,664	$ 3,613,067	$ 3,613,067	$ -	$ -
2 SDA	218,458	175,637	175,637	-	-
3 SIG	153,000	137,807	137,807	-	-
4 Methamphetamine	86,000	82,995	82,995	-	-
A Subtotal	4,121,122	4,009,506	4,009,506	-	-
B Medicaid					
1 Current Year PEPM	1,476,550	1,475,270	1,475,270	-	-
2 Reinvestment Savings	-	-	-	-	-
B Subtotal	1,476,550	1,475,270	1,475,270	-	-
C Adult Benefit Waiver (ABW)					
1 Current Year PEPM	96,000	96,000	96,000	-	-
2 Savings	-	-	-	-	-
C Subtotal	96,000	96,000	96,000	-	-
D MI CHILD					
1 Current Year PEPM	7,000	15,739	15,739	-	-
2 Savings	-	-	-	-	-
D Subtotal	7,000	15,739	15,739	-	-
E Local					
1 Current Year PA2	1,370,300	1,067,296	1,067,296	-	1,067,296
2 PA2 Fund Balance	-	-	-	-	-
3 Other Local (R325.4152 excluding subsection (1)(b))	754,553	1,861,702	1,861,702	-	1,861,702
E Subtotal	2,124,853	2,928,998	2,928,998	-	-
F Fees and Collections - Subtotal (R325.4151 (1)(d))	30,700	112,871	-	(112,871) (1)	-
G Other Contracts and Sources (Subtotal)	-	-	-	-	-
Grand Total of Subtotals A-G	$ 7,856,225	$ 8,638,384	$ 8,525,513	$ (112,871)	-
Amount Billable to MDCH (Section A audited subtotal)			$ 4,009,506		
Total MDCH Payments			4,121,122		
(Overpayment)/Underpayment			$ (111,616)		
Local Match Funds Total					$ 2,928,998
Local Match Requirement [(Grand Total of Audited Expenditures-B-C-D-G) * 10%]					693,850
Local Match (Shortfall)/Excess					$ 2,235,148

Variance Footnotes

(1) Fees and collections, reported to the Authority by contract agencies, that are not in the Authority's general ledger balances.

For the year ended September 30, 2006

Program	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures Gross Amount	Audited Expenditures Less Medicaid	Audited Expenditures Less Fees	Audited Expenditures Net Amount
Administration	$ 455,581	$ 1,869,727	$ 1,869,727	$ 320,204	$ -	$ 1,549,523
Prevention	856,589	878,074	878,074	-	-	878,074
Treatment	5,770,752	5,031,903	4,919,032	1,057,903	-	3,861,129
Women's Services	280,000	282,728	282,728	97,163	-	185,565
HIV/EIP Training	116,392	65,795	65,795	-	-	65,795
SIG	153,000	137,807	137,807	-	-	137,807
Methamphetamine	86,000	82,995	82,995	-	-	82,995
Other (ABW)	137,911	289,355	289,355	-	-	289,355
Totals	$ 7,856,225	$ 8,638,384	$ 8,525,513	$ 1,475,270	$ -	$ 7,050,243

Reconciliation of PA2 Funds

Beginning balance	$ 162,929
Current year PA2	1,459,129
Expenditures	(1,067,296)
Ending Balance	$ 554,762

Kent County CMH Authority

Schedule of Expenses and Funding by Program - Substance Abuse Coordinating Agency
Schedule B

Audited Funding Sources								Variance	Questioned Cost
State Agreement	SDA	PA2	Other Local	Other Sources	ABW	MI CHILD	Total Funding	(Audited-Reported)	(Expenditures - Funding)
$ 302,317	$ -	$ -	$ 1,247,206	$ -	$ -	$ -	$ 1,549,523	$ -	$ -
841,589	-	-	36,485	-	-	-	878,074	-	-
2,214,455	175,637	1,028,731	426,567	-	-	15,739	3,861,129	(112,871)	-
147,000	-	38,565	-	-	-	-	185,565	-	-
65,795	-	-	-	-	-	-	65,795	-	-
137,807	-	-	-	-	-	-	137,807	-	-
82,995	-	-	-	-	-	-	82,995	-	-
41,911	-	-	151,444	-	96,000	-	289,355	-	-
$ 3,833,869	$ 175,637	$ 1,067,296	$ 1,861,702	$ -	$ 96,000	$ 15,739	$ 7,050,243	$ (112,871)	$ -
$	4,009,506								

Reconciliation of Medicaid Managed Care (PEPM) Funds

PEPM payments received	$ 1,505,954
Medicaid savings carried over	-
Expenditures	(1,475,270)
Medicaid savings carryforward	(30,684)
Returned to PIHP	$ -

BDO

BDO Seidman, LLP
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February 8, 2007

Members of the Finance Committee
Kent County CMH Authority
Grand Rapids, Michigan

Dear Members:

We have audited the financial statements of the Kent County CMH Authority (Authority) for the year ended September 30, 2006, and have issued our report thereon dated February 8, 2007. Under auditing standards generally accepted in the United States of America, we are providing you with the attached information related to the conduct of our audit.

This information is intended solely for the use of the Finance Committee and management of the Authority and should not be used for any other purpose.

Very truly yours,

BDO Seidman, LLP

Kent County CMH Authority

Report to the Finance Committee

Year Ended September 30, 2006

Kent County CMH Authority

Report to the Finance Committee

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated October 10, 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 auditing standards generally accepted in the United States of America does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected.

As part of our audit, we considered the internal controls of the Authority. Such considerations were for the purpose of determining our audit procedures and to report on the internal controls in accordance with *Government Auditing Standards,* and not to provide any assurance concerning such internal controls.

The scope of the work performed in connection with our audit of the Authority's financial statements was substantially the same as that described during our earlier audit planning meeting with management.

Our Responsibility for Other Information in Documents Containing Audited Financial Statements

Under professional standards, the auditor's responsibility for other information in documents containing the Authority's audited financial statements (e.g., Management's Discussion and Analysis) does not extend beyond the financial information identified in the financial statements, and the auditor is not required to perform procedures to corroborate such other information. However, in accordance with such standards, we have read the information in the Authority's financial statements and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. No such inconsistencies or misstatements came to our attention.

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.

Accounting Estimates and Management Judgments

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. We have made tests of management's estimates and deemed them to be appropriate.

Audit Adjustments and Financial Statement Disclosures

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. This 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.

We proposed no audit adjustments to the financial statements that could, in our judgment, either individually or in the aggregate, have a significant effect on the Authority's financial reporting process. In addition, management incorporated our suggested disclosures in the notes to the financial statements.

Discussion About the Quality of Accounting Principles Applied in Financial Reporting

To be discussed during the meeting.

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 that could be significant to the financial statements or the auditors' 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 Our Retention

Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management.

Alternative Accounting Treatments Discussed With Management

During the past fiscal year, there were no significant transactions that required a discussion with management as to alternative accounting treatments.

Difficulties Encountered in Performing the Audit

We are pleased to inform you that there were no significant delays encountered during the course of the audit. All records and information requested by BDO Seidman were freely available for inspection. Management and other personnel provided full cooperation.

Independence

We are not aware of any relationships between BDO Seidman, LLP and Kent County CMH Authority that, in our professional judgment, may reasonably be thought to bear on our independence.

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February 8, 2007

Members of the Finance Committee
Kent County CMH Authority
Grand Rapids, Michigan

Dear Members:

During the course of our audit of the Kent County CMH Authority's (Authority) financial statements for the year ended September 30, 2006, we observed the Authority's significant accounting policies and procedures and certain business, financial and administrative practices.

In planning and performing our audit of the financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

We have prepared the enclosed memorandum containing suggestions for improving the Authority's internal control, as well as information on new auditing standards which will affect future audits. Copies of the memorandum should also be made available to appropriate individuals responsible for maintaining the Authority's internal control, procedures and other matters for study and implementation.

This letter and memorandum are intended solely for the information and use of the Members of the Finance Committee, Board of Directors, management, and others within the organization (or specified regulatory agency or other specified third party) and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the Authority's financial statements.

Very truly yours,

BDO Seidman, LLP

Kent County CMH Authority

Memorandum of Recommendations

Year Ended September 30, 2006

Kent County CMH Authority

Memorandum of Recommendations

As a result of our recent audit of the Kent County CMH Authority's (Authority) financial statements, we have the following suggestions for improving the existing internal control. These matters did not affect the fair presentation of the financial statements.

Fixed Assets

Fixed asset disposals are not documented in a uniform manner and do not show proper authorization of the disposal. A form and approval process should be developed for the disposals. A record of disposal should be retained in the accounting department and should include all documents associated with the disposal including a standard form developed and prepared by the Authority which requires a signature approval from management.

New Audit 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. Currently, our report is 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 all audits of financial statements for periods ending on or after December 15, 2006. Earlier application is permitted. The Risk Assessment Standards will be effective for periods beginning on or after December 15, 2006.