

### 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 Saginaw County Community Mental Health A	County Saginaw
Fiscal Year End September 30, 2007	Opinion Date March 24, 2008	Date Audit Report Submitted to State March 31, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

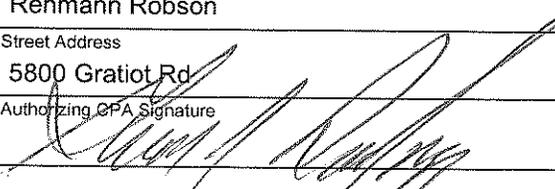
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO** Check each applicable box below. (See instructions for further detail.)

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989.799.9580	
Street Address 5800 Gratiot Rd		City Saginaw	State Zip MI 48638
Authorizing CPA Signature 		Printed Name Gerald J. Deslover, CPA	License Number 1101007126



Saginaw, Michigan

Financial Statements

For the Year Ended September 30, 2007

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

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**Compliance**

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*

42-44



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

March 26, 2008

Members of the Board  
Saginaw County Community  
Mental Health Authority  
Saginaw, Michigan

We have audited the accompanying financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the *Saginaw County Community Mental Health Authority*, 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 the Authority'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 financial position of the business-type activities, the major fund and the aggregate remaining fund information of the Authority, as of September 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note III. F. to the financial statements, certain errors resulting in overstatement of long-term debt and deferred revenue in the Enterprise Fund and understatement of accrued liabilities in the Postemployment Benefits Internal Service Fund as of September 30, 2006, were discovered by management of the Authority during the current year. Accordingly, an adjustment has been made to net assets as of September 30, 2006, to correct the error.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2008, 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 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-11 is not a required part of the basic financial statements but is 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *Saginaw County Community Mental Health Authority's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

## **Saginaw County Community Mental Health Authority's Management's Discussion and Analysis (MD&A) Fiscal Year Ended September 30, 2007**

A Management's Discussion and Analysis (MD&A) is an easily readable analysis of the financial activities based on known facts, decisions, and conditions. It provides information in a fair and objective manner, with the goal of assisting users in assessing whether the financial position has improved or deteriorated as a result of the year's operations.

The following financial data is the management's discussion and analysis of the three financial reports that have been audited by the external audit team, The Rehmann Group, who were contracted by the Board of Directors of SCCMHA to complete an independent review and express an opinion with regard to the fair presentation of the financial statements prepared by the staff at SCCMHA.

The following three financial statements have been prepared to report the current financial position and activity of Saginaw County Community Mental Health Authority (SCCMHA) for fiscal year 2006/2007.

### **Statement of Net Assets**

This statement reports combined assets and liabilities and fund net assets for the enterprise fund as well as the internal service funds. It shows the current financial position as well as the breakdown of total net assets for restricted or unrestricted purposes.

### **Statement of Activities and Proprietary Fund Revenues, Expenses, and Changes in Fund Net Assets**

This statement is used to disclose how both operating and non-operating revenues and expenses are generated within the enterprise fund and internal service funds, as well as how operating expenses are split between service populations. This report totals the expenses against revenues that have been generated for determination of the change in net assets, which is also shown as total net assets on the Statement of Net Assets.

### **Statement of Cash Flows**

The total cash and cash equivalents at year end is calculated by determining the change in cash flow totals during the year. This report shows summarized changes in cash flow, which reconciles to the net increase (decrease) in cash and cash equivalents and is then added to cash and cash equivalents at the beginning of the year. The total of cash and cash equivalents at the end of the year is reported in the assets section of the Statement of Net Assets.

The following summarized financial statements have been prepared to help facilitate this discussion and analysis, and also to assist the reader in understanding the data that explains the financial position.

**Statement of Net Assets**

	<u>9/30/2007</u>	<u>9/30/2006</u>	<u>Increase (Decrease)</u>
<b>Assets</b>			
Current Assets	\$10,126,412	\$11,850,891	-\$1,724,479
Long term investments (*Note)	\$8,431,949	\$7,569,222	\$862,727
Capital assets, net of accum. Depr	<u>\$2,430,980</u>	<u>\$2,747,129</u>	<u>-\$316,149</u>
Total assets	\$20,989,341	\$22,167,242	-\$1,177,901
<b>Liabilities</b>			
Current liabilities	\$7,016,678	\$9,083,522	-\$2,066,844
Long term liabilities	<u>\$341,715</u>	<u>\$1,469,003</u>	<u>-\$1,127,288</u>
Total liabilities	\$7,358,393	\$10,552,525	-\$3,194,132
<b>Net assets</b>			
Investments in capital assets, net of related debt	\$1,457,213	\$976,439	\$480,774
Restricted	\$8,106,750	\$8,306,568	-\$199,818
Unrestricted - ABW	\$1,736,024		\$1,736,024
Unrestricted - Other	<u>\$2,330,961</u>	<u>\$2,331,710</u>	<u>-\$749</u>
	\$13,630,948	\$11,614,717	\$2,016,231

\* Note – The classification of long term investments represents the various investments that have been separately classified to cover the post employment health insurance.

Summarized in this manner, the reader is able to see the comparison of FY06 ad FY07 totals resulting in a decrease of assets in the amount of **\$1,177,901** and a reduction in liabilities totaling **\$3,194,132**. Both of these totals and the net increase in total assets in the amount of **\$2,016,231**, will be discussed in detail on the following two pages. The portion of increase in net assets related to the reclassification of ABW from Deferred Revenue to Unrestricted in FY07 amounted to \$1,736,024.

## Assets

The following breakdown of assets helps to identify where the changes occurred within the various classifications of assets between FY06 and FY07.

	<u>Two Year Comparison</u>
<b>Increase</b> (decrease) in cash	\$659,760
Increase <b>(decrease)</b> in receivables	(\$278,113)
Increase <b>(decrease)</b> in due from MDCH	(\$44,736)
Increase <b>(decrease)</b> in short term investments	(\$1,958,652)
<b>Increase</b> (decrease) in long term investments	\$862,727
Increase <b>(decrease)</b> in net capital assets	(\$316,149)
Increase <b>(decrease)</b> in all other assets	(\$102,738)
Total Increase <b>(decrease)</b>	<u>(\$1,177,901)</u>

In summary, the main reason for this decrease in the two year comparison of assets is as a result of the decrease in available cash for short term investment.

## Liabilities

The following breakdown of liabilities helps to identify where the changes occurred within The various classifications of liabilities between FY06 and FY07.

**Bold** item represent the current position for each classification of liability

	<u>Two Year Comparison</u>
Increase <b>(decrease)</b> in accounts payable	(\$1,212,218)
Increase <b>(decrease)</b> in due from State of Michigan	(\$268,659)
Increase <b>(decrease)</b> in long term debt	(\$796,923)
Increase <b>(decrease)</b> in deferred revenue ABW	(\$1,193,923)
<b>Increase</b> (decrease) in deferred revenue Medicaid	\$58,745
Increase <b>(decrease)</b> in deferred revenue GF	(\$195,108)
<b>Increase</b> (decrease) in all othe liabilities	\$413,954
Total increase <b>(decrease)</b> in liabilities	<u>(\$3,194,132)</u>

In summary, the decrease in total liabilities results from decreases in both accounts payable and deferred revenue ABW. ABW deferred for years prior to FY07, have been reclassified as unrestricted funds, creating the \$1,193,923 reduction in deferred revenues.

## Total Net Assets

Our analysis of total net assets includes identification of the classification of assets as either restricted or unrestricted as set forth by the Governmental Accounting Standards Board No. 34(GASB34).

The change in net assets between FY 2006 and FY2007, is reported as follows:

	<u>Two Year Comparison</u>
Total <b>increase</b> (decrease) in investments in capital assets, net of related debt	\$480,774
Total increase ( <b>decrease</b> ) in investments in restricted assets	(\$199,818)
Total <b>increase</b> (decrease) in investments in unrestricted	\$1,736,024
Total <b>increase</b> (decrease) in investments in unrestricted	<u>(\$749)</u>
<b>Increase</b> (decrease) in total net assets	<u><u>\$2,016,231</u></u>
Change in investment in capital assets, net of related debt:	
Capital assets, beginning of year	\$976,439
Capital assets, ending of year	<u>\$1,457,213</u>
<b>Increase</b> (decrease) in total capital assets net of related debt	<u><u>\$480,774</u></u>
Change in restricted assets from FY 2006 to FY 2007:	
Restricted for earmarked contributions had no change	\$0
Restricted for post-employment benefits <b>decrease</b>	(\$64,521)
Restricted for risk of managed care <b>decrease</b>	<u>(\$135,297)</u>
Increase ( <b>decrease</b> ) in total restricted assets	<u><u>(\$199,818)</u></u>
Change in unrestricted assets from FY 2006 to FY 2007:	
Unrestricted funds, beginning of year	\$2,331,710
Unrestricted funds, ending of year	<u>\$4,066,985</u>
<b>Increase</b> (decrease) in unrestricted funds	<u><u>\$1,735,275</u></u>

The increase in total net assets, as shown above, is a result of an increase in investments in capital assets, net of related debt and unrestricted assets and a decrease in restricted assets.

**Statement of  
Activities and Proprietary Fund Revenues, Expenses  
And Changes in Fund Net Assets**

	9/30/2007	9/30/2006	Increase (Decrease)
Operating revenue			
Medicaid revenue	\$32,946,558	\$33,196,833	-\$250,275
State general fund	\$8,704,684	\$9,034,667	-\$329,983
ABW revenue	\$348,062	\$340,691	\$7,371
MI Child revenue	\$18,072	\$26,114	-\$8,042
Local revenue	\$1,452,509	\$1,115,326	\$337,183
Grant revenue	\$966,480	\$1,004,667	-\$38,187
Total operating revenue	\$44,436,365	\$44,718,298	-\$281,933

(Medicaid Revenues include Medicaid Capitation, Savings, and Children's Waiver)

	9/30/2007	9/30/2006	Increase (Decrease)
Operating expenditures			
Program expenses			
Children with SED	\$3,020,905	\$2,621,850	\$399,055
Adults with SMI	\$17,825,982	\$17,718,215	\$107,767
Persons with DD	\$20,100,545	\$21,604,449	-\$1,503,904
Other programs	\$1,285,845	\$1,279,463	\$6,382
Unallocated costs	\$387,457	\$76,786	\$310,671
Non-program	\$2,783,192	\$2,394,690	\$388,502
Total operating expenses	\$45,403,926	\$45,695,453	-\$291,527
Operating Income (loss)	-\$967,561	-\$977,155	\$9,594
Non-operating revenues (expenses)	\$1,442,207	\$1,420,121	\$22,086
Change in net assets	\$474,646	\$442,966	\$31,680
Net assets, beginning of year			
as restated	\$13,156,302	\$12,713,336	\$442,966
Net assets, end of year	\$13,630,948	\$13,156,302	\$474,646

Some of the changes within net assets, that created significant limitations affecting the availability of fund resources, are as follows:

Operating revenues decreased from FY06 levels by \$281,933 and operating expenses increased in FY07 by \$291,527, resulting in the total change in operating income of \$9,594 between fiscal years 2006 and 2007.

Due to the non-operating revenues in the amount of \$1,442,207, net assets increased by \$474,646 for fiscal year 2007.

Increased availability of case management and supports coordination for consumers was a key focus of FY07. DD residential service costs were significantly reduced as a result of these efforts and the efforts of staff in facilitation of more independent living arrangements for consumers, causing a reduction in total DD program expenses.

A considerable amount of work was initiated during FY07 to review the cost of SCCMHA's board operated DD skill building program. MDCH FY06 data showed the per-unit rate for skill building (Code H2014) by SCCMHA not only exceeded the state's average allowable amount across all PIHPs, but further review showed that it was also one of the highest rates in the state. As a result of the cost saving efforts in FY07, the total cost of our skill building program was reduced by over \$300,000 from FY06. Further work will be done in FY08 to implement additional cost savings in this area.

The increase in unallocated costs during FY07 was a result of the new software implementation. SCCMHA paid the Washtenaw Community Health Organization (WCHO) local funds in the amount of \$313,905 for re-development and implementation of their Encompass software for Saginaw. To show transparency in our reporting that these costs were not covered with federal dollars, both the costs and local funding used for this purpose remain unallocated at year end.

### Statement of Cash Flows

	9/30/2007	9/30/2006
Cash flows from operating activities		
provided from operations	(\$1,495,195)	(\$1,323,693)
Cash flows from non-capital and financing operations	\$0	\$1,430,560
Cash flows from capital and related financing operations	(\$748,191)	(\$353,514)
Cash flows from investing operations	\$2,903,146	\$75,721
Net increase (decrease) in cash and cash equivalents	\$659,760	(\$170,926)
Cash and cash equivalents - beginning of year	\$2,145,070	\$2,315,996
Cash and cash equivalents - end of year	\$2,804,830	\$2,145,070

The major reason for the decrease in the cash and cash equivalents – end of year, stems from the full year’s reduction of Medicaid capitated revenue received as a result of MDCH’s FY06 rebasing activity.

## **Capital Assets**

In order to identify some of the changes in capital assets, net of accumulated depreciation, and the effects of these changes on total net assets, the following discussion was prepared to accumulate significant events that occurred in FY 2007:

### Construction of the New Crisis Residential Home on Hospital Road

Saginaw County issued for \$1.00 a 99 year lease to SCCMHA for the property at 3353 Hospital Road, Saginaw, Michigan to build a new ten bed crisis residential home. Construction of the home was completed during late summer of FY2007, with startup of services in the fall FY2007. The Sloan Road home previously used for crisis residential services was converted back to a six bed specialized residential home.

### Payoff of Saginaw County Building Authority Leased Properties

During the spring of FY07, SCCMHA paid the Saginaw County Building Authority in the amount of \$227,600, for the balances owed on the following, previously recognized leases payable:

#### Property Name:

Weiss Home	1617 Wesiss Street	Saginaw,	Michigan	48602
Navaho Trail Home	3161 Navaho Trail	Hemlock	Michigan	48626
Roseview Home	4763 W. Margaret	Bridgeport,	Michigan	48722
Greenbrier Home	2950 Briarwood	Saginaw,	Michigan	48601
Slatestone Home	101 Slatestone	Saginaw,	Michigan	48603
Sloan Home	2480 East Sloan Road	Birch Run,	Michigan	48415
Woodlawn	238 Woodlawn Drive	St. Charles,	Michigan	48655
Cedar Crest	231 South 10th Street	Saginaw,	Michigan	48601

SCCMHA now holds the deeds to these properties, which were the last of the Saginaw County Building Authority properties built for and leased by SCCMHA.

### Encompass Software Implementation

Because of the efforts of SCCMHA staff, the employees of Washtenaw County Health Organization (WCHO), and PCE, the product developer, the Encompass software product was ready to go live on October 1, 2006 at SCCMHA. Within months, all critical functions were running efficiently allowing for timely and accurate authorization of services, payment of provider claims, and billing of commercial insurance.

Both clinical staff and providers are now able to document person centered plans, detailed service activity, and progress notes directly into the electronic medical record, as a result of this Encompass. Likewise, staff generated service activity logs and provider generated claims allow not only for recognition of the encounters for state reporting, but also the revenue allowed for payment of the expenses linked to these activities.

Additional software development is continuing at this time in Network Services Department's contract management and provider audit areas, as well as the Customer Services and Recipient Rights Office to enhance functionality. It is anticipated these enhancements will be completed by mid FY08.

#### Data Warehouse – Meridian/SharePoint

Additional development, implementation, and training of the data warehouse will continue into 2008, to allow for increased functionality for all staff in the use of the new Encompass network software. This data warehouse continues under development using Meridian/SharePoint software, a tool that will allow the leadership at SCCMHA to have timely access of critical data for use in decision making related to care management, quality and utilization, costing, and monitoring of all clinical activities.

Additional information regarding capital assets can be found in the notes to the financial statements.

### **Forecast**

Following is a description of current known facts, decisions, or conditions that are expected to have a significant affect on the future financial position or operations.

#### Other Post Employment Benefits (OPEB) Actuarial Valuation

During the winter of 2007, Gabriel, Roeder, Smith & Company, completed an actuarial valuation of the post employment health care benefit liability associated with retiree health insurance provided by SCCMHA. This valuation was completed for purposes of both determining future liability and complying with GASB Statements No. 43 and 45, which are effective during 2008 and 2009, respectively. During FY 2008, a trust account will be established to manage the funds for the OPEB. Additionally during 2008, annual payments will commence transferring funds into the trust that will be held strictly for the use of OPEB.

#### Rebasing of Medicaid Capitated Fund by MDCH

The Michigan Department of Community Health completed a new actuarial study during the summer of 2007, which will impact the level of Medicaid funding received by SCCMHA over the next two years (FY2008 & FY2009). As a result of this study, it has been determined that SCCMHA will receive increased Medicaid revenues, with a slight decrease in General Fund revenues.

The encounter data generated in FY 2007 thru FY 2008 will be used for the next round of rebasing that will take place in FY 2009, in an effort to rebase capitated Medicaid funding for FY 2010 & FY 2011. SCCMHA staff continually work to improve data quality in order to provide the most accurate and reliable encounter data for these ongoing studies.

#### **CONTACTING THE AUTHORITY MANAGEMENT**

This financial report is designed to provide a general overview of the Saginaw County Community Mental Health Authority's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Director of Finance, Saginaw County Community Mental Health Authority, 500 Hancock, Saginaw, Michigan 48602.

# **FINANCIAL STATEMENTS**

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2007**

	Enterprise Operating Fund	Internal Service Funds	Adjustments	Total Business-type Activities
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 2,804,830	\$ -	\$ -	\$ 2,804,830
Investments	6,380,035	8,431,949	-	14,811,984
Receivables:				
Clients and insurance companies (net of allowance for doubtful accounts and settlement adjustments of \$545,612)	422,512	-	-	422,512
Due from Michigan Department of Community Health	373,276	-	-	373,276
Due from other funds	482,271	157,072	(639,343)	-
Inventory	11,553	-	-	11,553
Prepaid expenses	134,206	-	-	134,206
<b>Total current assets</b>	<b>10,608,683</b>	<b>8,589,021</b>	<b>(639,343)</b>	<b>18,558,361</b>
<b>Noncurrent assets:</b>				
Capital assets				
Assets not being depreciated	987,680	-	-	987,680
Assets being depreciated, net	1,443,300	-	-	1,443,300
<b>Total noncurrent assets</b>	<b>2,430,980</b>	<b>-</b>	<b>-</b>	<b>2,430,980</b>
<b>Total assets</b>	<b>13,039,663</b>	<b>8,589,021</b>	<b>(639,343)</b>	<b>20,989,341</b>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Accounts payable	3,780,325	-	-	3,780,325
Due to Michigan Department of Community Health	401,749	-	-	401,749
Accrued liabilities	6,770	-	-	6,770
Accrued liabilities - Excess health benefit costs	424,664	-	-	424,664
Due to other funds	157,072	482,271	(639,343)	-
Estimated claims payable	583,456	-	-	583,456
Accrued payroll and benefits	220,151	-	-	220,151
Notes and contracts payable - current	632,052	-	-	632,052
Compensated absences - current	341,136	-	-	341,136
Unearned revenue:				
Adult Benefit Waiver	542,101	-	-	542,101
Coordinating agency	58,745	-	-	58,745
Other	25,529	-	-	25,529
<b>Total current liabilities</b>	<b>7,173,750</b>	<b>482,271</b>	<b>(639,343)</b>	<b>7,016,678</b>
<b>Noncurrent liabilities:</b>				
Notes and contracts payable, net of current portion	341,715	-	-	341,715
<b>Total liabilities</b>	<b>7,515,465</b>	<b>482,271</b>	<b>(639,343)</b>	<b>7,358,393</b>
<b>Net assets</b>				
Invested in capital assets, net of related deb	1,457,213	-	-	1,457,213
Restricted for retirement costs	-	157,072	-	157,072
Restricted for postemployment benefits	-	7,949,678	-	7,949,678
Unrestricted - Adult Benefit Waiver	1,736,024	-	-	1,736,024
Unrestricted	2,330,961	-	-	2,330,961
<b>Total net assets</b>	<b>\$ 5,524,198</b>	<b>\$ 8,106,750</b>	<b>\$ -</b>	<b>\$ 13,630,948</b>

The accompanying notes are an integral part of these financial statements

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF ACTIVITIES AND**  
**PROPRIETARY FUND REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Enterprise Operating Fund	Internal Service Funds	Adjustments	Total Business-type Activities
<b>Operating revenues</b>				
Capitated revenues	\$ 41,672,838	\$ -	\$ -	\$ 41,672,838
Fee for service	882,375	-	-	882,375
Local revenue	38,674	-	-	38,674
Grant and categorical revenue	792,175	-	-	792,175
<b>Total operating revenues</b>	<u>43,386,062</u>	<u>-</u>	<u>-</u>	<u>43,386,062</u>
<b>Operating expenses</b>				
Program expenses:				
Children with Severe Emotional Disturbance Programs	3,020,905	-	-	3,020,905
Adults with Serious Mental Illness Programs	17,825,982	-	-	17,825,982
Developmental Disabilities Programs	20,100,545	-	-	20,100,545
Other populations	1,285,845	-	-	1,285,845
Unallocated costs	387,454	-	-	387,454
Non-program expenses:				
P.A. 530 local funds transfer	509,649	-	-	509,649
Provider tax	1,942,457	-	-	1,942,457
Postemployment health insurance	-	331,086	-	331,086
<b>Total operating expenses</b>	<u>45,072,837</u>	<u>331,086</u>	<u>-</u>	<u>45,403,923</u>
<b>Operating income (loss)</b>	<u>(1,686,775)</u>	<u>(331,086)</u>	<u>-</u>	<u>(2,017,861)</u>
<b>Nonoperating revenues (expenses)</b>				
County appropriation	1,050,303	-	-	1,050,303
Rent	109,352	-	-	109,352
Interest revenue	585,868	870,526	-	1,456,394
Miscellaneous revenue	34,308	-	-	34,308
Interest expense	(33,931)	-	-	(33,931)
Bay Connection maintenance expense	(123,919)	-	-	(123,919)
<b>Total nonoperating revenues (expenses)</b>	<u>1,621,981</u>	<u>870,526</u>	<u>-</u>	<u>2,492,507</u>
<b>Income before transfers</b>	<u>(64,794)</u>	<u>539,440</u>	<u>-</u>	<u>474,646</u>
Transfers in	143,096	-	(143,096)	-
Transfers out	-	(143,096)	143,096	-
<b>Change in net assets</b>	<u>78,302</u>	<u>396,344</u>	<u>-</u>	<u>474,646</u>
Net assets, beginning of year, as restated	<u>5,445,896</u>	<u>7,710,406</u>	<u>-</u>	<u>13,156,302</u>
<b>Net assets, end of year</b>	<u>\$ 5,524,198</u>	<u>\$ 8,106,750</u>	<u>\$ -</u>	<u>\$ 13,630,948</u>

The accompanying notes are an integral part of these financial statements

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Enterprise Operating Fund	Internal Service Funds
<b>Cash flows from operating activities:</b>		
Cash received from customers and others	\$ 44,129,331	\$ -
Cash received from other funds	1,430,560	-
Cash payments to other funds	-	(1,430,560)
Cash payments to employees	(14,470,030)	-
Cash payments to suppliers for goods and services	(31,873,713)	(331,086)
Net cash provided (used) by operating activities	(783,852)	(1,761,646)
<b>Cash flows from non-capital financing activities</b>		
Transfers in (out)	143,096	(143,096)
County appropriation	1,050,303	-
Net cash used by capital and related financing activities	1,193,399	(143,096)
<b>Cash flows from capital and related financing activities</b>		
Principal paid on notes	(395,199)	-
Interest paid on notes	(33,931)	-
Purchase of capital assets	(319,061)	-
Net cash used by capital and related financing activities	(748,191)	-
<b>Cash flows from investing activities</b>		
Interest received	585,868	870,526
Rent received	109,352	-
Other receipts	34,308	-
Payments for Bay Connection maintenance	(123,919)	-
Sale of investments	1,958,652	-
Purchases of investments	-	(531,641)
Net cash provided by investing activities	2,564,261	338,885
Net increase (decrease) in cash and cash equivalents	2,225,617	(1,565,857)
Cash and cash equivalents, beginning of year	579,213	1,565,857
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,804,830</b>	<b>\$ -</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ (1,686,775)	\$ (331,086)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	464,501	-
(Increase) decrease in assets		
Accounts receivable	278,113	-
Due from State of Michigan	44,736	-
Due from other funds	948,289	-
Inventory	7,110	-
Prepaid expenses	95,628	-
Increase (decrease) in liabilities		
Accounts payable	(1,155,655)	-
Due to MDCH	(268,659)	-
Accrued liabilities	(827)	-
Accrued liabilities - excess health benefit cost	424,664	-
Due to other funds	(444,977)	(1,430,560)
Estimated claims payable	162,906	-
Accrued payroll and benefits	(48,761)	-
Accrued compensated absences	12,240	-
Unearned revenue	383,615	-
<b>Net cash provided (used) by operating activities</b>	<b>\$ (783,852)</b>	<b>\$ (1,761,646)</b>

The accompanying notes are an integral part of these financial statement:

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for The Saginaw County Community Mental Health Authority, (the “Authority”), established under Public Act 267 of 1976, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

#### A. Reporting Entity

As indicated above, the Authority is a Community Mental Health Authority serving the mental health and developmental disability needs of Saginaw County residents. Its Board of Directors is appointed by the County Commissioners of Saginaw County.

#### B. Government-wide and Fund Financial Statements

As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and the Statement of Activities and Proprietary Fund Revenues, Expenses and Changes in Fund Net Assets. The Authority’s only major fund is reported in a separate column in the aforementioned financial statements.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The enterprise fund is the Authority's primary operating fund, and only major fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

The internal service funds are used to account for and finance potential uninsured risks of loss related to various funding received through the Michigan Department of Community Health (MDCH), as well as accounting for and financing postemployment health benefits and other selected retirement costs.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund and of the government's internal service funds are charges to customers for services. Operating expenses for the enterprise fund and internal service funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### D. Assets, Liabilities and Equity

#### 1. *Deposits and Investments*

Cash and cash equivalents consist of deposits in checking accounts, other demand accounts and amounts deposited in a pooled liquid asset account.

#### *Statutory Authority*

Michigan's statutory authority allows governmental entities to invest in the following investments:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the investments company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Authority's investment policy allows for all of these types of investments.

# **SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **2. *Accounts Receivable***

Accounts receivable are shown net of an allowance for uncollectibles and settlement adjustments. Consumer accounts receivable and revenue are recorded when services are performed. A substantial portion of the Authority's receivables from services to consumers is received under contractual arrangements with Medicaid, Medicare and other commercial insurance programs, whereby the Authority is paid based on allowable costs incurred. The preliminary settlement of amounts due to the Authority is subject to redetermination upon audit by the applicable agency. An estimated provision is made for possible adjustments that may result from such reviews and any differences between the amounts accrued and amounts settled are recorded in operations in the period of settlement. Fee accounts receivable are shown net of an allowance for uncollectibles, which is based on management's estimate using collection history trends.

### **3. *Inventory***

Inventories are valued at cost. The costs of inventories are recorded as expenses when consumed rather than when purchased.

### **4. *Prepayments***

Payments made to vendors for services that will benefit periods beyond September 30, 2007, are recorded as "prepaid expenses" in the accompanying statement of net assets.

### **5. *Capital Assets***

Capital assets, which include property, plant and equipment are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or 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 the assets lives are not capitalized.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-50
Equipment	3-10
Machinery	5-12
Vehicles	3-10

### **6. *Contract with Michigan Department of Community Health***

The Authority has several account balances that relate to the Authority's contract with the Michigan Department of Community Health (MDCH). The amount reported as "Due from Michigan Department of Community Health" reflects a receivable from the various grantor agencies for services provided under the contract for the year ended September 30, 2007, and amounts owed back to the Authority from the State as the result of the year end cost settlement. "Due to Michigan Department of Community Health" largely reflects amounts due to the State for clients of the Authority placed in state institutions.

### **7. *Compensated Absences***

Accumulated compensated absences (i.e., paid time off) are reported as expenses and liabilities of the Authority when incurred.

### **8. *Unearned Revenue***

Unearned revenue represents that portion of the current year Adult Benefit Waiver (ABW) contract amount and grant proceeds that may be expended in the subsequent fiscal year. Such carry over is generally limited to 5% of the General Fund contract, and must be spent in the following year.

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**II. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

A reconciliation of cash and investments as shown in the basic financial statements to the Authority's deposits and investments is as follows:

	<u>Carrying Amount</u>
Financial Statement Captions:	
Cash and cash equivalents	\$ 2,804,830
Investments	<u>14,811,984</u>
	<u>\$ 17,616,814</u>
Notes to financial statements:	
Deposits	\$ 5,223,560
Cash on hand	365
Investments	<u>12,392,889</u>
	<u>\$ 17,616,814</u>

The Authority chooses to disclose its investments by specifically identifying each. As of year end, the Authority had the following investments.

Investment	Maturity In years	Fair Value	Ratings
Vanguard IT Bond Index Fund Investor Shares	7.5	\$ 1,238,370	Lehman AA2/AA3
Vanguard IT Treasury Fund Admiral Shares	7.9	1,074,295	Lehman AAA/AAA
Vanguard Short-Term Treasury Fund Admiral Shares	2.7	211,041	Lehman AAA/AAA
Vanguard 500 Index Fund Investments (stocks)	N/A	1,551,072	N/A
Vanguard Long-Term Bond Index Fund	20.2	1,525,086	Lehman AA2/AA3
American Century Investments	N/A	1,331,266	Morningstar ★★★
Schwab 1000 Index Fund	N/A	1,500,819	Morningstar ★★★★★
Daimler Chrysler North Commercial Paper	N/A	2,000,000	Moody P2, S&P A2
Institutional Money Market Fund	N/A	<u>1,960,940</u>	Moody Aaa, S&P AAAM
		<u>\$ 12,392,889</u>	

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### **Investment and deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note D.1. of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity periods for each investment are identified above for investments held at year end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note D.1. of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end \$5,877,464 of the Authority's bank balance of \$6,177,464 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk 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. State law does not require and the Authority does not have a policy for investment custodial credit risk. Of the investments listed above, there is no custodial credit risk as these investments are uncategorized as to credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note D.1. of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the Authority's investments are in Vanguard IT Bond Index Fund Investor Shares, Vanguard IT Treasury Fund Admiral Shares, Vanguard 500 Index Portfolio, Vanguard Long Term Bond Index Fund, American Century Investments, Schwab 1000 Index Fund, and Daimler Chrysler North commercial paper. All investments held at year end are reported above.

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**B. Capital Assets**

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

	<u>Beginning Balance as, Restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activity</b>				
Capital assets not being depreciated:				
Land	\$ 709,000	\$ -	\$ -	\$ 709,000
Work in progress	<u>3,750</u>	<u>274,930</u>	<u>-</u>	<u>278,680</u>
Total capital assets not being depreciated:	<u>712,750</u>	<u>274,930</u>	<u>-</u>	<u>987,680</u>
Capital assets being depreciated:				
Buildings and improvements	8,834,924	5,924	-	8,840,848
Furniture and fixtures	527,941	29,587	-	557,528
Vehicles	537,739	-	-	537,739
Equipment	<u>1,092,792</u>	<u>8,620</u>	<u>(280,000)</u>	<u>821,412</u>
Total capital assets being depreciated	<u>10,993,396</u>	<u>44,131</u>	<u>(280,000)</u>	<u>10,757,527</u>
Less accumulated depreciation:				
Buildings and improvements	7,389,519	254,462	-	7,643,981
Furniture and fixtures	452,527	31,914	-	484,441
Vehicles	415,765	54,029	-	469,794
Equipment	<u>701,205</u>	<u>137,299</u>	<u>(122,493)</u>	<u>716,011</u>
Total accumulated depreciation	<u>8,959,016</u>	<u>477,704</u>	<u>(122,493)</u>	<u>9,314,227</u>
Total capital assets being depreciated, net	<u>2,034,380</u>	<u>(433,573)</u>	<u>(157,507)</u>	<u>1,443,300</u>
Business-type activity capital assets, net	<u>\$ 2,747,130</u>	<u>\$ (158,643)</u>	<u>\$ (157,507)</u>	<u>\$ 2,430,980</u>

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**C. Long-Term Debt**

The Authority's long-term debt as of September 30, 2007, is summarized as follows:

	<u>Balance October 1, 2006, as Restated</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
<p>Bay Connections Property Installment Contract - The installment purchase agreement dated May 15, 1998, has 156 monthly payments which bear interest at 3.4%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.</p>	\$ 324,705	\$ -	\$ (68,639)	\$ 256,066	\$ 70,791
<p>Gera Road Note Payable – The note dated December 20, 2002, has 60 monthly payments which bear interest at 3.42%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.</p>	127,432	-	(9,429)	118,003	118,003
<p>Riverfront Road Note Payable – The note dated April 1, 2003 has 57 monthly payments which bear interest at 3.13%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.</p>	124,969	-	(9,171)	115,798	115,798
<p>Rambo Group Home Note Payable – The note dated December 1, 2003 has 48 monthly payments which bear interest at 3.236%. The full faith and credit of the Authority along with the property itself has been pledged for principal and interest.</p>	166,234	-	(11,245)	154,989	154,989

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

	<u>Balance October 1, 2006, as Restated</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
Geddes Group Home Note Payable – The note dated February 10, 2005, has 33 monthly payments which bear interest at 3.46% with a final principal payment of \$162,262 due on December 20, 2007.	\$ 174,423	\$ -	\$ (10,396)	\$ 164,027	\$ 164,027
St. Charles Group Home Note Payable – The note dated July 26, 2006, has 77 monthly payments which bear interest at 5.19% with a final principal payment of \$116,562 due on December 20, 2012.	<u>172,927</u>	<u>-</u>	<u>(8,043)</u>	<u>164,884</u>	<u>8,444</u>
Total notes payable	<u>1,090,690</u>	<u>-</u>	<u>(116,923)</u>	<u>973,767</u>	<u>632,052</u>
Contracts Payable – Saginaw County Building Authority OBRA Group Homes, original issue of \$450,000 with annual maturities of \$10,000 to \$55,000 maturing through August 1, 2007 bearing interest from 2.75% to 5.75%.	138,276	-	(138,276)	-	-
Mental Health Group Homes, original issue of \$1,500,000 with annual maturities of \$70,000 to \$150,000 maturing through April 1, 2007 bearing interest from 4.40% to 6.40%.	<u>140,000</u>	<u>-</u>	<u>(140,000)</u>	<u>-</u>	<u>-</u>
Total contracts payable	<u>278,276</u>	<u>-</u>	<u>(278,276)</u>	<u>-</u>	<u>-</u>
Total notes and contracts payable	<u>1,368,966</u>	<u>-</u>	<u>(395,199)</u>	<u>973,767</u>	<u>632,052</u>
Accrued compensated absences	<u>328,896</u>	<u>399,172</u>	<u>(386,932)</u>	<u>341,136</u>	<u>341,136</u>
<b>TOTAL LONG TERM DEBT</b>	<u>\$ 1,697,862</u>	<u>\$ 399,172</u>	<u>\$(782,131)</u>	<u>\$ 1,314,903</u>	<u>\$ 973,188</u>

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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The annual requirements to pay future principal and interest on the installment contract and notes payable debt are as follows:

<b><u>Year ending September 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>
2008	\$ 632,052	\$ 20,754
2009	82,220	13,194
2010	85,271	10,142
2011	47,169	7,289
2012	10,394	6,416
2013	<u>116,661</u>	<u>1,511</u>
	<u>\$ 973,767</u>	<u>\$ 59,306</u>

**D. Managed Care Reserve Fund**

Following is a schedule of changes in net assets of the Managed Care Risk Reserve Internal Service Fund:

Beginning balance	\$ 135,297
Additions	7,799
Deletions	<u>(143,096)</u>
Ending balance	<u>\$ -</u>

**E. Operating Leases**

During the fiscal year 2007, the Authority entered into a lease agreement with a private company to operate a pharmacy within the Authority's building. The total rent revenue received from this agreement by the Authority for the fiscal year ended September 30, 2007, was \$24,000. The lease agreement can be canceled by either party with 30 days notice with terms of the lease on a month by month basis.

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**F. Interfund Receivables, Payables and Transfers**

Due To	Due From		
	Operating Fund	Internal Service Funds	Total
Operating Fund	\$ -	\$ 482,271	\$ 482,271
Internal Service Funds	157,072	-	157,072
Total	<u>\$ 157,072</u>	<u>\$ 482,271</u>	<u>\$ 639,343</u>

The balance of \$482,271 due to the Operating Fund from the Internal Service Funds is the amount that is owed from the Postemployment Benefits Internal Service Fund from over payments of postemployment benefits.

The balance of \$157,072 due to the Internal Service Funds from the Operating Fund is the amount owed to the Retirement Internal Service fund for future retirement costs.

Transfer From	Transfer To Operating Fund
Internal Service Fund	<u>\$ 143,096</u>

The transfer from the Internal Service Fund to the Operating Fund was to cover the current year shortfall between expenses and revenues in the Operating Fund.

**III. OTHER INFORMATION**

**A. Risk Management**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (worker’s compensation), as well as medical benefits provided to employees and retirees. During the year ended September 30, 2007, the Authority carried commercial insurance to cover all risk of losses other than those for medical benefits provided to employees and retirees. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three years. The Authority is self-funded for health insurance subject to stop loss insurance limits so that the maximum amount of loss is fixed at a predetermined amount. This amount is provided in the Authority’s annual budget.

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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The self-insurance program for health insurance is accounted for in the Enterprise Fund. An independent administrator (Blue Cross) is hired to process the daily claims. The Authority is responsible for individual claims up to \$25,000 per participant or \$7,221 times the number of participants in the aggregate. Blue Cross is responsible for paying the claims above this amount. There were no reductions of insurance coverage from the prior year. The Authority is also responsible for paying administrative charges and stop loss insurance premiums. The liability at the end of the year is based on claims already incurred and reported as provided by Blue Cross and on estimates of incurred but not reported claims as estimated by management which cannot exceed the stop loss insurance limits. Settled claims have not exceeded insurance coverage in any of the past three years.

The changes in the claims liability for the years ended September 30, 2006 and 2007 are as follows:

<b>Fiscal Year</b>	<b>Beginning of Period Liability</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claims Paid</b>	<b>End of Period Liability</b>
2006	\$ 816,365	\$ 621,229	\$ 1,017,044	\$ 420,550
2007	420,550	2,047,435	1,884,529	583,456

**B. Defined Benefit Pension Plan**

Plan Description

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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Funding Policy

The Authority is required to contribute at an actuarially determined rate; the current rate of annual covered payroll is 14.89% for mental health workers, 81.69% for supervisors, 31.19% for non-union management, 3.57% for general non-union, and a flat fee of \$1,076 a month for senior administrators. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Authority, depending on the MERS contribution program adopted by the Authority.

Annual Pension Cost

For the year ended September 30, 2007, the Authority's annual pension cost of \$293,023 for MERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the Authority's December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

**Trend Information**

<b>Fiscal Year <u>Ending</u></b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC <u>Contributed</u></b>	<b>Net Pension Obligation</b>
9/30/05	\$ 288,811	100%	\$0
9/30/06	271,725	100%	0
9/30/07	293,023	100%	0

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) -Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/04	\$10,430,359	\$13,352,165	\$2,921,806	78%	\$1,521,774	192%
12/31/05	10,622,106	13,999,772	3,377,666	76%	1,468,550	230%
12/31/06	10,958,957	14,518,129	3,559,172	75%	1,328,049	268%

**C. Defined Contribution Pension Plan**

The Saginaw County Community Mental Health Authority Defined Contribution Pension Plan was established by the Authority to provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is administered by a third party on behalf of the participants and their beneficiaries. At September 30, 2007, there were 220 plan members. Plan members may contribute either 0% or 3% of covered salary. The Authority is required to contribute either 6% or 9% of annual covered payroll, depending on the percentage being contributed by the employee. Plan provisions and contributions requirements are established and may be amended by the Authority Board. In accordance with the Plan contribution requirements, \$200,532 in employee contributions and \$607,010 in employer contributions were made for the year ended September 30, 2007.

**D. Postemployment Health Benefits**

In addition to the pension benefits described in Note IIIB and IIIC, the Authority provides postretirement healthcare benefits, in accordance with State statutes, to all employees provided proper application is made prior to retirement and the employee is a member of the plan on the date of retirement and the employee agrees to participate in a co-pay program. Currently, 37 retirees meet those eligibility requirements. The Authority reimburses the amount of validated claims for medical, dental and hospitalization costs incurred by pre-Medicare retirees and their dependants based upon the employee's number of years of service. Expenditures for postretirement healthcare benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the government. During the year ended September 30, 2007, expenditures of \$331,086 were recognized for postretirement healthcare.

# SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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An analysis of the total postemployment health benefit obligation applicable to the Authority's employees was performed during the year. As of June 30, 2005, (the date for which the actuarial study was performed) the unfunded actuarial accrued liability was determined to be as follows:

Present value of future benefits	
Retirees and beneficiaries	\$ 5,116,897
Active members	<u>12,455,463</u>
Total present value of future benefits	17,572,360
Present value of future employer normal costs	<u>3,304,218</u>
Actuarial accrued liability	14,268,142
Actuarial value of assets	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 14,268,142</u>

Currently, the Authority has 39 participants receiving benefits under the Plan. This is a result of the County of Saginaw covering all participants that had retired at the time the Authority separated from the County.

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statement to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending September 30, 2008. Management is currently assessing the impact of this new accounting standard on the Authority's financial statement for future reporting periods.

### **E. Adjustments**

The adjustments presented on the Statement of Net Assets and Proprietary Fund Revenues, Expenses and Changes in Net Assets are required to eliminate interfund balances and activity between the Enterprise Fund and the Internal Service Funds, for presentation of the government-wide financial statements.

**SAGINAW COUNTY COMMUNITY  
MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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**F. Prior Period Adjustments**

During the year ended September 30, 2007, prior period adjustments in the amount of \$401,723 and \$1,736,024 were necessary to properly account for the overstatement of long term debt and deferred revenue of ABW. The effect on the Operating Fund net assets was as follows:

Net assets, beginning of year, as previously stated	\$ 3,308,149
Prior period adjustment:	
Long term debt	401,723
Deferred revenue - ABW	<u>1,736,024</u>
Net assets, beginning of year, as restated	<u>\$ 5,445,896</u>

During the year ended September 30, 2007, a prior period adjustment in the amount of \$596,162 was necessary to properly account for the understatement of liabilities in the Postemployment Benefits Internal Service Fund. The effect on the Postemployment Benefits Internal Service Fund net assets was as follows:

Net assets, beginning of year, as previously stated	\$ 8,014,199
Prior period adjustment:	
Accrued liabilities	<u>(596,162)</u>
Net assets, beginning of year, as restated	<u>\$ 7,418,037</u>

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**COMBINING AND INDIVIDUAL  
FUND FINANCIAL STATEMENTS**

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF REVENUES - ENTERPRISE FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

**Capitated Revenues**

Medicaid and Medicaid savings	\$ 32,665,928
General fund	8,640,776
Adult Benefit Waiver	348,062
MI Child	18,072
	41,672,838

**Fee for Service Revenues**

Medicaid FFS	55,453
Non commercial FFS	238,213
Childrens Waiver	280,630
Public Act 423 insurance	308,079
	882,375

**Local**

County match	1,050,303
Other local	38,674
	1,088,977

**Grant and Categorical revenue**

Tobacco tax	15,658
Multicultural services	48,250
Grants	728,267
	792,175

**Nonoperating revenues**

Rental - Bay Connection Commercial	109,352
Miscellaneous revenue	34,308
Interest revenue	585,868
	729,528

**Total revenue**

**\$ 45,165,893**

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 CHILDREN WITH SEVERE EMOTIONAL DISTURBANCE PROGRAMS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Hospitalization</u>	<u>Clinical Services</u>	<u>Case Management</u>
<b>Operating expenses</b>			
Salaries and wages	\$ -	\$ 25,485	\$ 940,619
Allocated employee benefits	-	-	325,948
Supplies	-	-	15,432
Subtotal	<u>-</u>	<u>25,485</u>	<u>1,281,999</u>
Services and charges:			
Contracted services	537,531	203,252	118,907
Allocated costs	-	-	632,017
Insurance	-	-	11,077
Utilities	-	-	2,003
Repairs and maintenance	-	-	2,368
Clinical services	-	-	7,142
Other	-	-	76,249
Total services and charges	<u>537,531</u>	<u>203,252</u>	<u>849,763</u>
Depreciation	-	(375)	-
<b>TOTALS</b>	<u><u>\$ 537,531</u></u>	<u><u>\$ 228,362</u></u>	<u><u>\$ 2,131,762</u></u>

Residential Services	Prevention Services	Totals
\$ -	\$ -	\$ 966,104
-	-	325,948
-	-	15,432
-	-	1,307,484
86,177	37,073	982,940
-	-	632,017
-	-	11,077
-	-	2,003
-	-	2,368
-	-	7,142
-	-	76,249
86,177	37,073	1,713,796
-	-	(375)
<u>\$ 86,177</u>	<u>\$ 37,073</u>	<u>\$ 3,020,905</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 ADULTS WITH SERIOUS MENTAL ILLNESS PROGRAMS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Hospitalization</u>	<u>Skill Building</u>	<u>Clinical Services</u>	<u>Case Management</u>
<b>Operating expenses</b>				
Personal services	\$ -	\$ 579,329	\$ 510,720	\$ 779,521
Allocated employee benefits	-	201,005	260,533	264,899
Supplies	-	9,767	8,032	12,682
Subtotal	<u>-</u>	<u>790,101</u>	<u>779,285</u>	<u>1,057,102</u>
Services and charges:				
Contracted services	4,418,810	729,177	299,184	1,181,260
Allocated costs	292,850	431,169	257,480	980,842
Insurance	-	3,056	21,454	17,189
Utilities	-	4,540	-	531
Repairs and maintenance	-	5,448	-	5,438
Clinical services	-	654	-	987
Other	-	7,699	5,553	64,253
Total services and charges	<u>4,711,660</u>	<u>1,181,743</u>	<u>583,671</u>	<u>2,250,500</u>
Depreciation	-	1,453	375	1,453
<b>TOTALS</b>	<u><u>\$ 4,711,660</u></u>	<u><u>\$ 1,973,297</u></u>	<u><u>\$ 1,363,331</u></u>	<u><u>\$ 3,309,055</u></u>

<u>Clubhouse House Services</u>	<u>Residential Services</u>	<u>Employment Skill Building</u>	<u>Prevention Services</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ 203,036	\$ 2,072,606
-	-	-	87,894	814,331
-	394	-	2,157	33,032
-	394	-	293,087	2,919,969
40,515	5,309,129	7,180	-	11,985,255
35,389	647,062	4,498	113,699	2,762,989
-	-	-	4,285	45,984
-	-	-	-	5,071
-	-	-	2,756	13,642
-	-	-	-	1,641
-	-	-	9,576	87,081
<u>75,904</u>	<u>5,956,191</u>	<u>11,678</u>	<u>130,316</u>	<u>14,901,663</u>
-	-	-	1,069	4,350
<u>\$ 75,904</u>	<u>\$ 5,956,585</u>	<u>\$ 11,678</u>	<u>\$ 424,472</u>	<u>\$ 17,825,982</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 PERSONS WITH DEVELOPMENTAL DISABILITIES PROGRAMS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Hospitalization</u>	<u>Emergency Services</u>	<u>Clinical Services</u>	<u>Case Management</u>
<b>Operating expenses</b>				
Personal services	\$ -	\$ 1,293,424	\$ 312,279	\$ 811,645
Allocated employee benefits	-	438,512	52,169	278,992
Supplies	-	57,373	233	1,603
Subtotal	<u>-</u>	<u>1,789,309</u>	<u>364,681</u>	<u>1,092,240</u>
Services and charges:				
Contracted services	974,753	942,049	662,745	283,109
Allocated costs	-	1,167,156	204,256	445,852
Insurance	-	31,077	4,355	-
Utilities	-	3,992	-	-
Repairs and maintenance	-	19,250	-	-
Rents	-	38,600	-	-
Other	-	525,017	10,018	84,167
Total services and charges	<u>974,753</u>	<u>2,727,141</u>	<u>881,374</u>	<u>813,128</u>
Depreciation	<u>-</u>	<u>1,085</u>	<u>-</u>	<u>-</u>
Total operating expenses	974,753	4,517,535	1,246,055	1,905,368
<b>Nonoperating expenses</b>				
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTALS</b>	<u><u>\$ 974,753</u></u>	<u><u>\$ 4,517,535</u></u>	<u><u>\$ 1,246,055</u></u>	<u><u>\$ 1,905,368</u></u>

<u>Clubhouse House Services</u>	<u>Residential Services</u>	<u>Prevention Services</u>	<u>Group Homes</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,417,348
-	-	-	-	769,673
-	-	-	13,256	72,465
-	-	-	13,256	3,259,486
82,564	9,954,912	196,666	-	13,096,798
-	775,954	4,870	-	2,598,088
-	-	176	-	35,608
-	-	-	10,677	14,669
-	235	-	93,471	112,956
-	-	-	98,786	137,386
-	2,705	-	17,003	638,910
<u>82,564</u>	<u>10,733,806</u>	<u>201,712</u>	<u>219,937</u>	<u>16,634,415</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>205,559</u>	<u>206,644</u>
82,564	10,733,806	201,712	438,752	20,100,545
-	-	-	33,931	33,931
<u>\$ 82,564</u>	<u>\$ 10,733,806</u>	<u>\$ 201,712</u>	<u>\$ 472,683</u>	<u>\$ 20,134,476</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 OTHER POPULATIONS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Hispanic Conference</u>	<u>Collaborative Body</u>	<u>Substance Abuse</u>
<b>Operating expenses</b>			
Supplies	\$ -	\$ 490	\$ -
Services and charges:			
Contracted services	-	34,486	1,165,376
Allocated costs	-	456	9,085
Other	<u>9,544</u>	<u>-</u>	<u>-</u>
Total services and charges	<u>9,544</u>	<u>34,942</u>	<u>1,174,461</u>
<b>TOTALS</b>	<u><u>\$ 9,544</u></u>	<u><u>\$ 35,432</u></u>	<u><u>\$ 1,174,461</u></u>

Evidence Based Practice	Totals
<u>\$ 1,034</u>	<u>\$ 1,524</u>
64,049	1,263,911
-	9,541
<u>1,325</u>	<u>10,869</u>
<u>65,374</u>	<u>1,284,321</u>
<u><u>\$ 66,408</u></u>	<u><u>\$ 1,285,845</u></u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 UNALLOCATED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Board Administrative</u>	<u>Benefit Cost Pool</u>	<u>Management Information Services</u>
<b>Operating expenses</b>			
Salaries and wages	\$ 986,105	\$ -	\$ 424,196
Employee benefits	411,439	2,983,003	152,093
Supplies	<u>29,869</u>	<u>-</u>	<u>50,200</u>
Subtotal	<u>1,427,413</u>	<u>2,983,003</u>	<u>626,489</u>
Services and charges:			
Contracted services	192,052	-	903,008
Allocated costs	1,476,690	-	3,682
Insurance	11,634	-	3,806
Utilities	10,076	-	707
Repairs and maintenance	14,977	-	46,630
Other	<u>139,097</u>	<u>-</u>	<u>155,111</u>
Total services and charges	<u>1,844,526</u>	<u>-</u>	<u>1,112,944</u>
Depreciation	<u>1,930</u>	<u>-</u>	<u>131,283</u>
<b>TOTALS</b>	3,273,869	2,983,003	1,870,716
Allocated costs	<u>(3,273,869)</u>	<u>(3,004,405)</u>	<u>(1,556,811)</u>
<b>UNALLOCATED COSTS</b>	<u>\$ -</u>	<u>\$ (21,402)</u>	<u>\$ 313,905</u>

<u>Motor Pool</u>	<u>Recipient Rights</u>	<u>Towerline Building</u>	<u>Transportation</u>
\$ -	\$ 239,416	\$ 118,401	\$ 224,807
-	82,921	41,885	81,701
<u>2,596</u>	<u>19,232</u>	<u>42,955</u>	<u>46,472</u>
<u>2,596</u>	<u>341,569</u>	<u>203,241</u>	<u>352,980</u>
-	3,984	-	-
-	85,896	30,529	24,483
5,514	3,256	372	32,174
-	2,684	31,487	1,598
1,397	2,310	17,062	42,944
-	62,998	138,093	3,392
<u>6,911</u>	<u>161,128</u>	<u>217,543</u>	<u>104,591</u>
-	2,048	1,085	54,028
9,507	504,745	421,869	511,599
<u>(9,507)</u>	<u>(504,745)</u>	<u>(421,869)</u>	<u>(511,599)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 DETAIL SCHEDULE OF PROGRAM EXPENSES - ENTERPRISE FUND  
 UNALLOCATED COSTS (CONCLUDED)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Quality</u>	<u>Network Services</u>	<u>Network Training Services</u>	<u>DHS Outstation</u>
<b>Operating expenses</b>				
Salaries and wages	\$ 495,813	\$ 300,219	\$ 99,523	\$ -
Employee benefits	174,204	117,949	46,049	-
Supplies	<u>10,220</u>	<u>6,744</u>	<u>5,069</u>	<u>-</u>
Subtotal	<u>680,237</u>	<u>424,912</u>	<u>150,641</u>	<u>-</u>
Services and charges:				
Contracted services	-	139,241	10,094	73,652
Allocated costs	141,824	70,300	34,127	10,266
Insurance	6,091	3,997	817	-
Utilities	1,110	26	-	-
Repairs and maintenance	692	-	-	-
Other	<u>6,207</u>	<u>5,621</u>	<u>14,759</u>	<u>-</u>
Total services and charges	<u>155,924</u>	<u>219,185</u>	<u>59,797</u>	<u>83,918</u>
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTALS</b>	836,161	644,097	210,438	83,918
Allocated costs	<u>(836,161)</u>	<u>(633,064)</u>	<u>(210,438)</u>	<u>-</u>
<b>UNALLOCATED COSTS</b>	<u><u>\$ -</u></u>	<u><u>\$ 11,033</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 83,918</u></u>

<u>Hancock Building</u>	<u>Total</u>
\$ 64,965	\$ 2,953,445
22,810	4,114,054
41,023	254,380
<u>128,798</u>	<u>7,321,879</u>
32,375	1,354,406
-	1,877,797
2,607	70,268
149,179	196,867
58,505	184,517
-	525,278
<u>242,666</u>	<u>4,209,133</u>
<u>63,508</u>	<u>253,882</u>
434,972	11,784,894
<u>(434,972)</u>	<u>(11,397,440)</u>
<u><u>\$ -</u></u>	<u><u>\$ 387,454</u></u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS  
SEPTEMBER 30, 2007**

	<u>Retirement</u>	<u>Postemployment Benefits</u>	<u>Managed Care Risk Reserve</u>	<u>Total</u>
<b>Assets</b>				
Investments	\$ -	\$ 8,431,949	\$ -	\$ 8,431,949
Due from other funds	157,072	-	-	157,072
<b>Total assets</b>	157,072	8,431,949	-	8,589,021
<b>Liabilities</b>				
Due to other funds	-	482,271	-	482,271
<b>Net Assets</b>				
Restricted for retirement costs	157,072	-	-	157,072
Restricted for postemployment benefits	-	7,949,678	-	7,949,678
<b>Total net assets</b>	<u>\$ 157,072</u>	<u>\$ 7,949,678</u>	<u>\$ -</u>	<u>\$ 8,106,750</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES  
 IN FUND NET ASSETS - INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Retirement</u>	<u>Postemployment Benefits</u>	<u>Managed Care Risk Reserve</u>	<u>Total</u>
<b>Operating revenues</b>	\$ -	\$ -	\$ -	\$ -
<b>Operating expenses</b>				
Postemployment Health Insurance	-	331,086	-	331,086
<b>Operating loss</b>	-	(331,086)	-	(331,086)
<b>Nonoperating revenues</b>				
Interest	-	862,727	7,799	870,526
<b>Income before transfers</b>	-	531,641	7,799	539,440
Transfers out	-	-	(143,096)	(143,096)
<b>Change in net assets</b>	-	531,641	(135,297)	396,344
Net assets, beginning of year, as restated	<u>157,072</u>	<u>7,418,037</u>	<u>135,297</u>	<u>7,710,406</u>
<b>Net assets, end of year</b>	<u>\$ 157,072</u>	<u>\$ 7,949,678</u>	<u>\$ -</u>	<u>\$ 8,106,750</u>

**SAGINAW COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>Retirement</u>	<u>Postemployment Benefits</u>	<u>Managed Care Risk Reserve</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>				
Cash payments to other funds	\$ -	\$ -	\$ (1,430,560)	\$ (1,430,560)
Cash payments to suppliers for goods and services	-	(331,086)	-	(331,086)
Net cash used by operating activities	-	(331,086)	(1,430,560)	(1,761,646)
<b>Cash flows from noncapital financing activities</b>				
Transfers out	-	-	(143,096)	(143,096)
<b>Cash flows from investing activities</b>				
Interest received	-	862,727	7,799	870,526
Purchases of investments	-	(531,641)	-	(531,641)
Net cash provided by investing activities	-	331,086	7,799	338,885
Net increase (decrease) in cash and cash equivalents	-	-	(1,565,857)	(1,565,857)
Cash and cash equivalents, beginning of year	-	-	1,565,857	1,565,857
<b>Cash and cash equivalents, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Reconciliation of operating loss to net cash provided by operating activities</b>				
Operating loss	\$ -	\$ (331,086)	\$ -	\$ (331,086)
Adjustments to reconcile operating loss to net cash provided by operating activities				
Decrease in liabilities				
Due to other funds	-	-	(1,430,560)	(1,430,560)
<b>Net cash used by operating activities</b>	<u>\$ -</u>	<u>\$ (331,086)</u>	<u>\$ (1,430,560)</u>	<u>\$ (1,761,646)</u>



**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***

March 26, 2008

Members of the Board  
Saginaw County Community  
Mental Health Authority  
Saginaw, Michigan

We have audited the financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the *Saginaw County Community Mental Health Authority*, as of and for the year ended September 30, 2007, which collectively comprise the *Saginaw County Community Mental Health Authority's* basic financial statements, and have issued our report thereon dated March 26, 2008. 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 *Saginaw County Community Mental Health Authority's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Saginaw County Community Mental Health Authority's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Saginaw County Community Mental Health Authority's* internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 *Saginaw County Community Mental Health Authority'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 *Saginaw County Community Mental Health Authority's* financial statements that is more than inconsequential will not be prevented or detected by the *Saginaw County Community Mental Health Authority's* internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

**2007-1 Inadequate Controls Over Non-routine Transactions Resulting in Restatement of Previously Issued Financial Statements**

- Criteria:** The Authority is required to prepare its financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the organization's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements, including the related footnotes (i.e., external financial reporting.)
- Condition:** During the year, the Authority discovered that previously issued financial statements contained material misstatements. The misstatements resulted from an inadvertent error in manual procedures involved in reporting non-routine transactions. Upon discovery of the error, the Authority restated the financial statements.
- Cause:** This condition was caused in part by management's interpretation of reporting requirements for unexpended funding proceeds and also in part by ineffective controls over the financial reporting review process.
- Effect:** The fact that the Authority's system of internal control over financial reporting did not prevent the error from being made or detect it prior to the issuance of the financial statements is a material weakness in the Authority's internal controls over financial reporting.
- View of Responsible Officials:** SCCMHA continues to create policies and procedures that establish internal controls to prevent not only material misstatements of the financial statements, but also to reduce the frequency of non-routine transactions. As our system becomes more integrated the frequency of non-routine transaction will be reduced. We will also follow up with increased monitoring of all transactions.

A material weakness is a significant deficiency, or 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 *Saginaw County Community Mental Health Authority'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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *Saginaw County Community Mental Health Authority's* basic 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*.

*Saginaw County Community Mental Health Authority's* responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit *Saginaw County Community Mental Health Authority's* responses and, accordingly, we express no opinion on them.

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

