

**LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2002**  
**WITH**  
**INDEPENDENT AUDITOR'S REPORT**

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

INDEPENDENT AUDITOR'S REPORT

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December 18, 2002

**UNQUALIFIED OPINION ON GENERAL PURPOSE FINANCIAL STATEMENTS  
PRESENTED TOGETHER WITH SUPPORTING SCHEDULES REPORTED ON AS  
SUPPLEMENTARY DATA**

**INDEPENDENT AUDITOR'S REPORT**

Lenawee Community Mental Health Authority  
Adrian, Michigan

We have audited the accompanying general purpose financial statements of the Lenawee Community Mental Health Authority, as of and for the years ended September 30, 2002 and 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Lenawee Community Mental Health 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lenawee Community Mental Health Authority as of September 30, 2002 and 2001, and the results of its operations 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 December 18, 2002 on our consideration of the Lenawee Community Mental Health Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 18, 2002

Lenawee Community Mental Health Authority  
Adrian, Michigan

Our audits were performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as Schedule of Expenditures by Program – General Fund in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lenawee Community Mental Health Authority. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the general purpose financial statements of the Lenawee Community Mental Health Authority. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Robertson, Eaton & Owen, P.C.*

Certified Public Accountants

December 18, 2002

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**INDEPENDENT AUDITOR'S REPORT**

Lenawee Community Mental Health Authority  
Adrian, Michigan

We have audited the financial statements of the Lenawee Community Mental Health Authority, as of and for the year ended September 30, 2002, and have issued our report thereon dated December 18, 2002. 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.

**COMPLIANCE**

As part of obtaining reasonable assurance about whether the Lenawee Community Mental Health Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the Lenawee Community Mental Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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December 18, 2002

Lenawee Community Mental Health Authority  
Adrian, Michigan

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

*Robertson, Eaton + Owen, P.C.*

Certified Public Accountants

December 18, 2002

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
MAJOR PROGRAMS AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

**INDEPENDENT AUDITOR'S REPORT**

Lenawee Community Mental Health Authority  
Adrian, Michigan

**COMPLIANCE**

We have audited the compliance of the Lenawee Community Mental Health 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 its major federal programs for the year ended September 30, 2002. The Lenawee Community Mental Health Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the Lenawee Community Mental Health Authority's management. Our responsibility is to express an opinion on the Lenawee Community Mental Health 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 Lenawee Community Mental Health Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Lenawee Community Mental Health Authority's compliance with those requirements.

In our opinion, the Lenawee Community Mental Health Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2002.

December 18, 2002

Lenawee Community Mental Health Authority  
Adrian, Michigan

## INTERNAL CONTROL OVER COMPLIANCE

The management of the Lenawee Community Mental Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Lenawee Community Mental Health Authority's internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 that would be material in relation to major federal programs 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 management, the Lenawee Community Mental Health Authority, and federal and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Robertson, Eaton & Owen, P.C.*

Certified Public Accountants



LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

COMPARATIVE COMBINED BALANCE SHEETS

SEPTEMBER 30, 2002 AND 2001

<u>ASSETS</u>	2002			
	<u>General Fund</u>	<u>Hendershot Fund</u>	<u>Fixed Assets Account Group</u>	<u>Long-Term Debt Account Group</u>
<b>Cash on hand and deposited:</b>				
Cash on hand	\$ 150	\$	\$	\$
Cash management account		193,068		
Cash on deposit	1,645,110			
Cash - risk reserve	176,216			
<b>Receivables:</b>				
Accounts receivable (net of allowance \$20,000 for 2002 and 2001)	65,821			
<b>Other agencies:</b>				
Contract agencies	102,571			
Accrued interest receivable	2,385			
<b>Due from other governmental units:</b>				
State of Michigan – Department of Community Health	515,922			
<b>Investments:</b>				
Land		2,400		
Securities		10		
<b>Prepaid expenses:</b>				
Rent	27,822			
Insurance	57,574			
Conferences	618			
Residential and other contracts	94,723			
Dues	6,499			
Real estate			490,169	
Fixed assets			997,379	
Amount to be provided for long term debt				281,419
<b>Total assets</b>	<u>\$ 2,695,411</u>	<u>\$ 195,478</u>	<u>\$1,487,548</u>	<u>\$281,419</u>

<u>2002</u>	<u>2001</u>				<u>2001</u>
<u>Totals</u> <u>(Memorandum Only)</u>	<u>General</u> <u>Fund</u>	<u>Hendershot</u> <u>Fund</u>	<u>Fixed Assets</u> <u>Account Group</u>	<u>Long-Term Debt</u> <u>Account Group</u>	<u>Totals</u> <u>(Memorandum Only)</u>
\$ 150	\$ 150	\$	\$	\$	\$ 150
193,068		189,277			189,277
1,645,110	1,190,753				1,190,753
176,216	23,364				23,364
65,821	263,580				263,580
102,571	132,993				132,993
2,385	2,852				2,852
515,922	55,827				55,827
2,400		2,400			2,400
10		10			10
27,822	30,264				30,264
57,574	40,590				40,590
618	372				372
94,723	136,633				136,633
6,499	6,293				6,293
490,169			325,577		325,577
997,379			968,166		968,166
<u>281,419</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>136,356</u>	<u>136,356</u>
<u>\$ 4,659,856</u>	<u>\$ 1,883,671</u>	<u>\$ 191,687</u>	<u>\$ 1,293,743</u>	<u>\$ 136,356</u>	<u>\$ 3,505,457</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

COMPARATIVE COMBINED BALANCE SHEETS

SEPTEMBER 30, 2002 AND 2001

<u>LIABILITIES AND FUND EQUITY</u>	2002			
	<u>General Fund</u>	<u>Hendershot Fund</u>	<u>Fixed Assets Account Group</u>	<u>Long-Term Debt Account Group</u>
<b>Liabilities:</b>				
Accounts payable	\$ 594,910	\$	\$	\$
<b>Accrued expenses:</b>				
Salaries and wages	59,282			
Due to State of Michigan - Depart- ment of Community Health	176,694			
Due to contract agencies	13,659			
Deferred revenue	481,031			
Accrued leave time				149,745
Mortgage payable				<u>131,674</u>
Total liabilities	<u>1,325,576</u>	<u>-</u>	<u>-</u>	<u>281,419</u>
<b>Fund equity:</b>				
Investment in fixed assets			1,487,548	
<b>Fund balance:</b>				
Reserved – Risk Reserve	176,384	195,478		
Unreserved	<u>1,193,451</u>			
Total fund equity	<u>1,369,835</u>	<u>195,478</u>	<u>1,487,548</u>	<u>-</u>
Total liabilities and fund equity	<u>\$ 2,695,411</u>	<u>\$ 195,478</u>	<u>\$ 1,487,548</u>	<u>\$ 281,419</u>

<u>2002</u>	<u>2001</u>				<u>2001</u>
<u>Totals</u> <u>(Memorandum Only)</u>	<u>General</u> <u>Fund</u>	<u>Hendershot</u> <u>Fund</u>	<u>Fixed Assets</u> <u>Account Group</u>	<u>Long-Term Debt</u> <u>Account Group</u>	<u>Totals</u> <u>(Memorandum Only)</u>
\$ 594,910	\$ 809,877	\$	\$	\$	\$ 809,877
59,282	46,233				46,233
176,694	48,364				48,364
13,659	13,869				13,869
481,031	2,000				2,000
149,745				136,356	136,356
<u>131,674</u>					
<u>1,606,995</u>	<u>920,343</u>	<u>-</u>	<u>-</u>	<u>136,356</u>	<u>1,056,699</u>
1,487,548			1,293,743		1,293,743
371,862	23,364	191,687			215,051
<u>1,193,451</u>	<u>939,964</u>				<u>939,964</u>
<u>3,052,861</u>	<u>963,328</u>	<u>191,687</u>	<u>1,293,743</u>	<u>-</u>	<u>2,448,758</u>
<u>\$ 4,659,856</u>	<u>\$ 1,883,671</u>	<u>\$ 191,687</u>	<u>\$ 1,293,743</u>	<u>\$ 136,356</u>	<u>\$ 3,505,457</u>



**LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY**  
**COMPARATIVE COMBINED STATEMENTS OF CHANGES IN FUND BALANCE**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

	<u>General Fund</u>	<u>Hendershot Fund</u>
Fund balance - October 1, 2001	\$ 937,233	\$ 182,043
Excess of revenues and other sources over expenditures for year	<u>2,731</u>	<u>9,644</u>
Fund balance - September 30, 2001	939,964	191,687
Excess of revenues and other sources over expenditures for year	<u>253,487</u>	<u>3,791</u>
Fund balance - September 30, 2002	<u>\$ 1,193,451</u>	<u>\$ 195,478</u>

**LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY**  
**COMPARATIVE COMBINED STATEMENTS OF REVENUES AND EXPENDITURES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2002 AND 2001**

	<u>2002</u>		
	<u>General Fund</u>	<u>Hendershot Fund</u>	<u>Totals (Memorandum Only)</u>
<b>Revenues:</b>			
Grants and appropriations	\$ 2,919,141	\$	\$ 2,919,141
Earned revenues and reimbursements	12,391,170		12,391,170
Interest income	<u>24,275</u>	<u>3,791</u>	<u>28,066</u>
Total revenues	<u>15,334,586</u>	<u>3,791</u>	<u>15,338,377</u>
<b>Expenditures:</b>			
Compensation and fringe benefits	3,364,616		3,364,616
State institutions, contract agencies, and other	9,732,524		9,732,524
General expenditures	<u>1,983,959</u>	<u>          </u>	<u>1,983,959</u>
Total expenditures	<u>15,081,099</u>	<u>-</u>	<u>15,081,099</u>
Excess of revenues over expenditures	<u>\$ 253,487</u>	<u>\$ 3,791</u>	<u>\$ 257,278</u>

2001

<u>General Fund</u>	<u>Hendershot Fund</u>	<u>Totals (Memorandum Only)</u>
\$ 3,212,146	\$	\$ 3,212,146
12,336,347		12,336,347
<u>63,019</u>	<u>9,644</u>	<u>72,663</u>
<u>15,611,512</u>	<u>9,644</u>	<u>15,621,156</u>
2,953,190		2,953,190
11,117,363		11,117,363
<u>1,538,228</u>	<u>          </u>	<u>1,538,228</u>
<u>15,608,781</u>	<u>-</u>	<u>15,608,781</u>
<u>\$ 2,731</u>	<u>\$ 9,644</u>	<u>\$ 12,375</u>



LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES -  
BUDGET (GAAP BASIS) AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2002  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2001

	<u>Budget</u>	<u>2002</u> <u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>2001</u> <u>Actual</u>
<b>Revenues:</b>				
<b>Grants and appropriations:</b>				
<b>State of Michigan:</b>				
Department of Community Health	\$ 2,279,626	\$ 2,146,731	\$ (132,895)	\$ 2,128,253
DCH carry forward				471
DCH Medicaid savings				102,450
RICC		784	784	2,150
Title XX Replacement	1,209	1,209		1,209
<b>Federal Government:</b>				
Block Grants	190,799	189,155	(1,644)	174,281
<b>Lenawee County:</b>				
County appropriation	369,348	369,348		391,682
Contact Agencies Match	120,000	114,262	(5,738)	148,937
Miscellaneous donations	4,339	4,339		6,624
Housing assistance	725	1,350	625	2,120
Miscellaneous		1,977	1,977	
Risk Reserve Fund				253,969
Other local	<u>89,215</u>	<u>89,986</u>	<u>771</u>	<u>          </u>
	<u>3,055,261</u>	<u>2,919,141</u>	<u>(136,120)</u>	<u>3,212,146</u>
<b>Earned revenues and reimbursements:</b>				
Charge for services - self-pay and insurance - net of discount	22,343	9,742	(12,601)	48,982
State of Michigan - Medicaid reimbursements	11,798,302	11,441,910	(356,392)	11,241,828
SSI revenue	763,230	763,230		763,230
OBRA	160,000	164,015	4,015	176,234
Other earned revenue	11,972	12,273	301	79,472
Lifeways				<u>26,601</u>
	<u>12,755,847</u>	<u>12,391,170</u>	<u>(364,677)</u>	<u>12,336,347</u>
Interest income	<u>24,274</u>	<u>24,275</u>	<u>1</u>	<u>63,019</u>
Total revenues	<u>15,835,382</u>	<u>15,334,586</u>	<u>(500,796)</u>	<u>15,611,512</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES -  
BUDGET (GAAP BASIS) AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2002  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2001

	<u>Budget</u>	<u>2002</u> <u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>2001</u> <u>Actual</u>
<b>Expenditures:</b>				
<b>Compensation and fringes:</b>				
Salaries and wages	\$ 2,479,000	\$ 2,475,039	\$ 3,961	\$ 2,203,240
Fringes	880,000	876,357	3,643	733,200
Per diem expenditures	<u>13,500</u>	<u>13,220</u>	<u>280</u>	<u>16,750</u>
Total compensation and fringes	<u>3,372,500</u>	<u>3,364,616</u>	<u>7,884</u>	<u>2,953,190</u>
<b>State Institutions, Contract Agencies, and Other:</b>				
State Institutions	270,764	268,704	2,060	512,607
Hope Community Center	6,536	6,536		6,536
Hispanic Contract				55,041
Substance Abuse				35,000
Local Inpatient	250,000	210,988	39,012	452,554
Residential Services	6,622,690	6,573,372	49,318	6,637,349
Drop In Center	33,926	33,926		45,716
Wraparound Services	132,134	131,954	180	154,467
Clinical Services	2,326,558	2,277,438	49,120	3,121,560
Lifeways – Other				12,611
MRS – Cash Match	24,500	24,500		24,500
Answering Service	10,000	10,000		5,000
Affiliation	11,000	10,512	488	13,043
Recipient Rights	32,000	31,963	37	41,379
State Match Obligation	<u>152,631</u>	<u>152,631</u>		
Total State Institutions, Contract Agencies, and Other	<u>9,872,739</u>	<u>9,732,524</u>	<u>140,215</u>	<u>11,117,363</u>
Total expenditures carried forward	<u>13,245,239</u>	<u>13,097,140</u>	<u>148,099</u>	<u>14,070,553</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES -  
BUDGET (GAAP BASIS) AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2002  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2001

	<u>Budget</u>	<u>2002</u> <u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>2001</u> <u>Actual</u>
Total expenditures carried forward	\$ 13,245,239	\$ 13,097,140	\$ 148,099	\$ 14,070,553
<b>General expenditures:</b>				
Office supplies	11,000	9,819	1,181	9,016
Computer software	20,000	19,361	639	2,710
Operating supplies	18,000	18,322	(322)	16,450
Client services	7,000	6,240	760	11,415
Professional services	801,004	793,010	7,994	735,769
Communication	81,000	79,776	1,224	76,898
Travel	45,000	43,045	1,955	35,705
Printing and publishing	17,000	16,784	216	22,805
Insurance	165,000	162,415	2,585	29,368
Software/hardware maintenance	22,000	21,724	276	22,151
Equipment maintenance	24,000	23,017	983	21,058
Building rental	336,320	336,303	17	364,665
Membership and dues	9,286	9,287	(1)	8,045
Equipment acquisitions	94,613	93,821	792	3,734
Staff development	12,000	11,903	97	21,450
Client transportation	128,000	121,765	6,235	100,483
Recruitment	2,654	2,654		50
Miscellaneous medical	10,000	7,744	2,256	15,725
Public relations/marketing	11,000	10,755	245	20,354
Computer hardware	50,000	45,948	4,052	20,377
Risk reserve	<u>150,266</u>	<u>150,266</u>		
Total general expenditures	<u>2,015,143</u>	<u>1,983,959</u>	<u>31,184</u>	<u>1,538,228</u>
Total expenditures	<u>15,260,382</u>	<u>15,081,099</u>	<u>179,283</u>	<u>15,608,781</u>
Excess of revenues over expenditures		\$ <u>253,487</u>		\$ <u>2,731</u>

# LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lenawee Community Mental Health Authority conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

#### A. FUND ACCOUNTING

The Lenawee Community Mental Health Authority is a governmental authority established in accordance with the Michigan Mental Health Code (Public Act 258, of Public Acts of 1974, as amended). The General Fund of Community Mental Health is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The General Fund includes the expenditures of Community Mental Health operated programs and the expenditures to the contract agencies.

The Hendershot Fund is a Trust Fund where Community Mental Health acts in a trustee capacity in handling designated assets.

Fixed assets are accounted for in the Fixed Assets Account Group, rather than in the General Fund. All fixed assets are valued at cost. Donated assets are valued at their estimated fair value on the date donated. No depreciation has been taken on fixed assets.

Long-term liabilities (accumulated leave time) are accounted for in the Long-Term Debt Account Group.

The two account groups are not 'funds'. They are concerned only with the measurement of financial position. They are not involved with the measurement of operations.

#### B. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The General fund is accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

#### C. INVESTMENTS

Investments are stated at cost, which approximates market.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. INVENTORY

Inventory in the General Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time the items are purchased. Therefore, no inventory is shown on the books.

E. COMPARATIVE DATA

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in Community Mental Health's financial position and operations. However, comparative data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

F. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

G. 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 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.

2. ENTITY

As of May 10, 1998, Lenawee County Community Mental Health Services Board became Lenawee Community Mental Health Authority. It is an Authority which is a distinct and separate governmental entity. It is responsible for its own operations, however, the Authority's Board members will continue to be appointed by the Lenawee County Board of Commissioners.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

3. INVESTMENTS

Investments in the Hendershot Fund are as follows:

	<u>2002</u>	<u>2001</u>
United Bank & Trust Cash Management Account – 1 28%	<u>\$ 193,068</u>	<u>\$ 189,276</u>
<b>Other: (Hendershot Fund)</b>		
<b>Land:</b>		
Two lots located in Tecumseh, Michigan	<u>\$ 2,400</u>	<u>\$ 2,400</u>
<b>Security:</b>		
One share of Lenawee Farm Bureau Oil Cooperative	<u>\$ 10</u>	<u>\$ 10</u>

The two lots located in Tecumseh are not served with a sanitary sewer system, therefore, residential construction is not permitted.

4. DUE FROM STATE OF MICHIGAN - DEPARTMENT OF COMMUNITY HEALTH

The breakdown is:

	<u>2002</u>	<u>2001</u>
Reimbursement Under OBRA	\$ 30,556	\$ 24,888
Children Respite Block Grant	5,043	14,468
Housing Assistance Reimbursement	625	2,120
Juvenile Justice Block Grant	7,045	1,945
Project Independence Block Grant	12,164	10,111
MI Child	881	689
Personal Care Reimbursement		106
RICC	284	1,500
Wraparound Block Grant	13,659	
FAS Grant	364	
DCH Final Amendment – Capitation – Medicaid	245,301	
DCH Final Amendment – General Fund	<u>200,000</u>	<u>          </u>
	<u>\$ 515,922</u>	<u>\$ 55,827</u>

**LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2002**

**5. DUE TO STATE OF MICHIGAN - DEPARTMENT OF COMMUNITY HEALTH**

Lenawee Community Mental Health Authority contracted with the State under a managed specialty supports and services contract. Community Mental Health is the fiscal agent for all funds covering the applicable programs of Lenawee County overseen by the State Department of Community Health.

Community Mental Health had incurred liabilities to the Department of Community Health at September 30, 2002 and 2001 resulting from an excess of advances from the Department over the State's share of costs incurred from community services. The State's share of net matchable costs is determined by preparation of a cost settlement by Community Mental Health's management, and is subject to audit and possible adjustment by the Department of Community Health.

Community Mental Health has separately incurred a liability to the Department of Community Health at September 30, 2002 and 2001 of amounts billed for the State Institution charges for County residents.

	<u>2002</u>	<u>2001</u>
Unpaid State Institution and Residential charges for County residents	\$ 14,032	\$ 38,333
DCH cost settlement	10,031	10,031
Local match obligation -- Medicaid	<u>152,631</u>	<u>          </u>
	<u>\$ 176,694</u>	<u>\$ 48,364</u>

**6. LEASE COMMITMENTS**

Community Mental Health currently leases its main facility from Lenawee County on a year-to-year basis.

Thirteen residential facilities are leased from independent third parties on three to ten year terms. Lease payments currently total \$31,198 per month.

Annual future lease commitments are as follows:

<u>Fiscal Year</u>	<u>Commitment</u>
2002-2003	\$ 365,015
2003-2004	232,340
2004-2005	149,333
2005-2006	68,394
2006-2007	<u>216,333</u>
	<u>\$ 1,031,415</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

7. MORTGAGE PAYABLE

Lenawee Community Mental Health Authority purchased a house (975 Riverside Avenue, Adrian, Michigan) using mortgage financing through an independent third party. The mortgage has an interest rate of 7.5% per annum and payable in monthly payments of \$1,220.00, commencing May 10, 2002. This debt obligation is shown on the balance sheet in the Long Term Debt Account Group.

Annual debt commitments are as follows:

<u>Fiscal Year</u>	<u>Commitment</u>
2002-2003	\$ 14,640
2003-2004	14,640
2004-2005	14,640
2005-2006	14,640
2006-2007	14,640
After 9-30-2007	124,400

8. ACCRUED LEAVE TIME

All regular full-time employees and all regular part-time employees are eligible for paid leave. Paid leave may be used for vacation, sickness, or personal days. An employee accrues leave time according to the number of years of services rendered and the number of hours worked per week. The accrued leave is payable to an employee at the time of termination. The accrued leave as of September 30, 2002 and 2001 was \$149,745 and \$136,356, respectively, and is shown on the balance sheet in the Long-Term Debt Account Group.

9. PENSION PLAN

All employees of the Lenawee Community Mental Health Authority are eligible to participate in defined benefit pension plan of Lenawee County - the Lenawee County Board of Commissioners Employees' Retirement Income Plan. Full disclosure of this plan is provided in Note 12 of the County of Lenawee's financial statements for the year ended September 30, 2001.

During fiscal year 2001-02, Lenawee Community Mental Health Authority obtained control and separated its pension plan from the County's plan. Actuarial information is not yet available.

Community Mental Health has made its required pension contributions. The contribution for 2001-02 was \$213,370 and \$187,683 for 2000-01.



LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

10. TRUST - HENDERSHOT FUND

The Hendershot Fund was established on December 15, 1975, when \$61,340.31 was received from the Glenn C. Hendershot Estate. The Lenawee County Mental Health Services Board was named as residual legatee in the Last Will and Testament of Glenn C. Hendershot. Subsequent distribution included securities, real estate, and cash valued at \$24,565.56 (valued per the Estate Tax Return of Glenn C. Hendershot, Deceased). The bequest was provided "to assist in research in the causes and treatment of mental illness".

All revenue pertaining to the bequest has been retained in the Hendershot Fund, until designated for a specific project or projects in compliance with the Last Will and Testament of Glenn C. Hendershot and the policy established by the Board of Directors at the December 16, 1976 Board Meeting.

11. CASH AND INVESTMENTS

At year end, the carrying value of Community Mental Health's deposits was \$2,014,544 and bank balance was \$2,578,294. Of the bank balance and investments, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. All deposits are with banks located in Michigan as required by statutes.

A listing of investments is provided in Note 3 to the financial statements.

12. CHANGES IN FIXED ASSETS

	<u>Balance</u> <u>October 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>September 30, 2002</u>
Real estate	\$ 325,577	\$ 164,592	\$ -	\$ 490,169
Office equipment	557,748	42,583	114,760	485,571
Furniture and fixtures	231,353	451	5,302	226,502
Audio visual equipment	85,031	84,627	10,591	159,067
Program equipment	81,968	32,446	241	114,173
Appliances	<u>12,066</u>	<u>          </u>	<u>          </u>	<u>12,066</u>
	<u>968,166</u>	<u>160,107</u>	<u>130,894</u>	<u>997,379</u>
Total	<u>\$ 1,293,743</u>	<u>\$ 324,699</u>	<u>\$ 130,894</u>	<u>\$ 1,487,548</u>

13. BUDGET

P.A. 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

The approved budget of Community Mental Health was adopted at the functional level (total expenditure figure). Total actual expenditures do not exceed budget for fiscal year 2001-02.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

14. RISK RESERVE

Community Mental Health has established a risk reserve for future exposure to risk in cost settling of the Michigan Department of Community Health (MDCH) contract. The reserve is allowed under the shared risk provisions contained in the MDCH contract.

Activity for year:

Balance – September 30, 2001	\$ 23,364
Interest earned	2,754
Deposit to cover risk insurance deductible	<u>150,266</u>
Balance – September 30, 2002	<u>\$ 176,384</u>

15. FIXED ASSETS – MDCH REIMBURSEMENT

Currently, there exists a difference of interpretations on how fixed asset purchases are to be reimbursed under State contract. Historically, the State has reimbursed local community mental health organizations on the basis of full purchase price of fixed assets at time of purchase. This is in accordance with current generally accepted accounting principles for governmental units under the modified accrual basis of accounting. The State is now taking a position to reimburse fixed asset purchases over a period of time using a depreciation factor.

The management of Lenawee Community Mental Health Authority thinks that the State needs to provide further guidance on the issue before the reimbursement procedure is changed. For the year ended September 30, 2002, the effect of this reimbursement change would not be material to overall financial statements.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

FOR THE YEAR ENDED SEPTEMBER 30, 2002

	<u>ADMINISTRATION</u>		
	<u>Executive Board</u>	<u>Fiscal</u>	<u>MIS</u>
<b>Compensation and fringes:</b>			
Salaries and wages	\$ 377,881	\$ 238,396	\$ 81,885
Fringes	143,080	87,227	20,069
Per diem expenditures	<u>13,220</u>	<u>          </u>	<u>          </u>
Total compensation and fringes	<u>534,181</u>	<u>325,623</u>	<u>101,954</u>
<b>General expenditures:</b>			
Office supplies	2,671	1,587	255
Computer software		149	19,212
Operating supplies	10,023	337	172
Professional services	20,155		1,590
Communication	20,992	5,031	3,828
Travel	12,597	3,219	20
Printing and publishing	16,784		
Insurance	25,134	16,860	5,625
Software/hardware maintenance		17,310	4,414
Equipment maintenance	6,117	2,069	634
Building rental	28,358	45,051	10,004
Membership and dues	9,287		
Equipment acquisitions	12,921	8,442	2,814
Computer hardware			45,948
Staff development	6,309	914	458
Public relations/marketing	10,755		
Risk reserve	7,286	4,351	1,901
Recruitment	<u>          </u>	<u>          </u>	<u>34</u>
Total general expenditures	<u>189,389</u>	<u>105,320</u>	<u>96,909</u>
Subtotal - direct expenditures	<u>723,570</u>	<u>430,943</u>	<u>198,863</u>
Administrative expense allocation	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 723,570</u>	<u>\$ 430,943</u>	<u>\$ 198,863</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

FOR THE YEAR ENDED SEPTEMBER 30, 2002

	<u>DEVELOPMENTAL DISABILITIES</u>	
	<u>Support Services</u>	<u>Supports Coordination</u>
<b>Compensation and fringes:</b>		
Salaries and wages	\$ 289,478	\$ 294,622
Fringes	<u>115,889</u>	<u>109,202</u>
Total compensation and fringes	<u>405,367</u>	<u>403,824</u>
<b>General expenditures:</b>		
Office supplies	1,082	870
Operating supplies	210	153
Professional services		77,461
Communication	6,753	10,614
Travel	4,259	2,900
Insurance	14,629	20,239
Equipment maintenance	1,649	2,473
Building rental	19,570	26,819
Staff development	103	977
Miscellaneous medical	7,744	
Risk reserve	4,640	5,370
Equipment acquisitions	<u>7,326</u>	<u>10,140</u>
Total general expenditures	<u>67,965</u>	<u>158,016</u>
Subtotal - direct expenditures	473,332	561,840
Administrative expense allocation	<u>49,415</u>	<u>58,655</u>
Total expenditures	<u>\$ 522,747</u>	<u>\$ 620,495</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

FOR THE YEAR ENDED SEPTEMBER 30, 2002

	<u>MENTAL ILLNESS – ADULT</u>		
	<u>Supports Coordination</u>	<u>Access</u>	<u>Medication Clinic</u>
<b>Compensation and fringes:</b>			
Salaries and wages	\$ 332,077	\$ 351,151	\$ 228,029
Fringes	<u>112,495</u>	<u>118,091</u>	<u>75,659</u>
Total compensation and fringes	<u>444,572</u>	<u>469,242</u>	<u>303,688</u>
<b>General expenditures:</b>			
Office supplies	1,153	604	675
Operating supplies	1,141	1,854	1,968
Professional services			599,245
Client services	6,240		
Communication	9,200	9,814	4,253
Travel	11,989	3,405	118
Insurance	18,177	16,958	18,928
Equipment maintenance	2,728	2,046	2,386
Building rental	21,747	27,540	27,540
Equipment acquisitions	20,870	8,739	9,481
Staff development	363	450	
Recruitment	322		2,298
Risk reserve	<u>5,007</u>	<u>5,095</u>	<u>9,895</u>
Total general expenditures	<u>98,937</u>	<u>76,505</u>	<u>676,787</u>
Subtotal - direct expenditures	543,509	545,747	980,475
Administrative expense allocation	<u>56,741</u>	<u>56,974</u>	<u>102,359</u>
Total expenditures	<u>\$ 600,250</u>	<u>\$ 602,721</u>	<u>\$ 1,082,834</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

FOR THE YEAR ENDED SEPTEMBER 30, 2002

MENTAL ILLNESS – CHILD

Supports  
Coordination

<b>Compensation and fringes:</b>	
Salaries and wages	\$ 281,520
Fringes	<u>94,645</u>
Total compensation and fringes	<u>376,165</u>
<b>General expenditures:</b>	
Office supplies	922
Operating supplies	2,464
Professional services	93,775
Communication	9,291
Travel	4,538
Insurance	25,865
Equipment maintenance	2,915
Building rental	31,798
Staff development	2,329
Risk reserve	5,045
Equipment acquisitions	<u>13,088</u>
Total general expenditures	<u>192,030</u>
Subtotal - direct expenditures	568,195
Administrative expense allocation	<u>59,318</u>
Total expenditures	<u>\$ 627,513</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

FOR THE YEAR ENDED SEPTEMBER 30, 2002

	<u>OTHER</u>	
	<u>RICC</u>	<u>Contract Agencies</u>
<b>State Institutions, Contract Agencies, and Other:</b>		
State Institutions	\$	\$ 268,704
Hope Community Center		6,536
Local Inpatient		210,988
Residential Services		6,573,372
Washtenaw Answering Service		10,000
Drop In Center		33,926
Wraparound Service		131,954
Clinical Services		2,277,438
MRS - Cash Match		24,500
Affiliation		10,512
Recipient Rights		31,963
State Match Obligation		<u>152,631</u>
Total State Institutions, Contract Agencies, and Other	<u>-</u>	<u>9,732,524</u>
<b>General expenditures:</b>		
Operating supplies		
Professional services	784	
Client transportation		121,765
Building rental		97,876
Risk reserve		<u>101,676</u>
Total general expenditures	<u>784</u>	<u>321,317</u>
Subtotal - direct expenditures	784	10,053,841
Administrative expense allocation	<u>-</u>	<u>969,914</u>
Total expenditures	<u>\$ 784</u>	<u>\$ 11,023,755</u>

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2002

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity's Identifying Number</u>	<u>Program or Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services				
<b>Block Grant for Community Mental Health Services</b>				
Wraparound	93.958	20020054	\$ 87,287	\$ 87,287
Child Respite	93.958	20020054	20,174	20,174
Project Independence	93.958	20012079	48,658	48,658
Juvenile Justice Diversion	93.958	20011978	38,800	27,047
<b>Medical Assistance Program</b>				
Preadmission Screenings & Annual Resident Reviews	93.778	PASSARR/OBRA		<u>123,011</u>
Total expenditures of federal awards				<u>\$ 306,177</u>



LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2002

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified			
Internal control over financial reporting:				
* Material weakness(es) identified?	_____	YES	<u>  X  </u>	NO
* Reportable condition(s) identified that are not considered to be material weaknesses?	_____	YES	<u>  X  </u>	NONE REPORTED
Noncompliance material to financial statements noted?	_____	YES	<u>  X  </u>	NO

FEDERAL AWARDS

Internal control over major programs:				
* Material weakness(es) identified?	_____	YES	<u>  X  </u>	NO
* Reportable condition(s) identified that are not considered to be material weaknesses?	_____	YES	<u>  X  </u>	NONE REPORTED
Type of auditor's report issued on compliance for major program:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	YES	<u>  X  </u>	NO

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2002

SECTION I - SUMMARY OF AUDITOR'S RESULTS

IDENTIFICATION OF MAJOR PROGRAM:

<u>CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Name of Federal Program</u>
93.778	PASSARR/OBRA	Medical Assistance Program
93.958	20012079	Block Grant for Community Mental Health Services

Dollar Threshold used to distinguish  
between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X  YES        NO

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE