

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006
WITH
INDEPENDENT AUDITORS' REPORT

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

INDEPENDENT AUDITORS' REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

As management of the Lenawee Community Mental Health Authority (LCMHA), we offer readers of the Lenawee Community Mental Health Authority's financial statements this narrative overview and analysis of the financial activities of the Lenawee Community Mental Health Authority for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here. All amounts, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- ◆ The assets of the Lenawee Community Mental Health Authority exceeded its liabilities at the close of the most recent fiscal year by \$3,469,943 (*net assets*). Of this amount, \$2,566,130 (*unrestricted net assets*) may be used to meet the Authority's ongoing obligations to clients and contractors.
- ◆ The Authority's total net assets increased by \$345,169.
- ◆ As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$2,968,529, an increase of \$385,596 in comparison with the prior year. Of this amount \$2,753,518 is *available for spending* at the Authority's discretion (*unreserved fund balance*).
- ◆ At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,753,518, or 15.72% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Lenawee Community Mental Health Authority's basic financial statements. The Lenawee Community Mental Health Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Lenawee Community Mental Health Authority's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused leave time).

The government-wide financial statements can be found on pages 5 and 6 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Lenawee Community Mental Health Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds varies from that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Lenawee Community Mental Health Authority maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Hendershot Fund, both of which are considered to be major funds.

The Lenawee Community Mental Health Authority adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 7 – 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 – 22 of this report.

Other information. In addition to the basic financial statements and the accompanying notes, this report also presents schedules of expenditures by program.

These schedules can be found on pages 23 – 27 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. Assets exceeded liabilities by \$3,469,943 at the close of the most recent fiscal year.

A portion of the Lenawee Community Mental Health Authority's net assets (19.9 percent) reflects its investment in capital assets (e.g. buildings, equipment, furniture and fixtures, and vehicles), less any related debt (no debt at September 30, 2006). The Lenawee Community Mental Health Authority uses these capital assets to provide services to clients; consequently, these assets are *not* available for future spending.

Lenawee Community Mental Health Authority's Net Assets

| | <u>2006</u> | <u>2005</u> |
|---|---------------------|---------------------|
| Current and other assets | \$ 5,154,714 | \$ 5,063,055 |
| Capital assets | <u>688,802</u> | <u>735,910</u> |
| Total assets | <u>5,843,516</u> | <u>5,798,965</u> |
| Long-term liabilities outstanding | 187,388 | 194,069 |
| Other liabilities | <u>2,186,185</u> | <u>2,480,122</u> |
| Total liabilities | <u>2,373,573</u> | <u>2,674,191</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 688,802 | 735,910 |
| Restricted | 215,011 | 205,083 |
| Unrestricted | <u>2,566,130</u> | <u>2,183,781</u> |
| Total net assets | <u>\$ 3,469,943</u> | <u>\$ 3,124,774</u> |

An additional portion of the Lenawee Community Mental Health Authority's net assets (6.2 percent) represents resources that are subject to restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$2,566,130) may be used to meet the Authority's ongoing obligations to clients and contractors.

Changes in Net Assets:

Lenawee Community Mental Health Authority's Changes in Net Assets

| | <u>2006</u> | <u>2005</u> |
|--|-------------------------|-------------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 14,079,068 | \$ 13,535,429 |
| Operating grants and contributions | 446,225 | 474,604 |
| General revenues: | | |
| Department of Community Health – General Fund | 2,629,836 | 1,833,250 |
| Other revenues | <u>751,082</u> | <u>688,303</u> |
| Total revenues | <u>17,906,211</u> | <u>16,531,586</u> |
| Expenses: | | |
| Developmental Disabilities | 1,148,067 | 1,099,923 |
| Mental Illness – Adult | 3,020,805 | 2,607,683 |
| Mental Illness – Child | 684,968 | 545,795 |
| Other: | | |
| Contract Agencies and State Institutions | 10,917,097 | 10,087,762 |
| RICC | 574 | 715 |
| Administration | <u>1,789,531</u> | <u>1,680,663</u> |
| Total expenses | <u>17,561,042</u> | <u>16,022,541</u> |
| Increase in net assets | 345,169 | 509,045 |
| Net assets – beginning of year | <u>3,124,774</u> | <u>2,615,729</u> |
| Net assets – end of year | <u>\$ 3,469,943</u> | <u>\$ 3,124,774</u> |

Financial Analysis of the Governmental Funds

On the modified accrual basis, the overall revenues increased \$1,374,626 or 8.3% of prior year's revenues, while total expenses increased \$1,585,586 or 10.0% of prior year's expenses in the General Fund

In the Hendershot Fund, the fund balance increased by \$9,928 during the year. This increase was the result of interest earned. The year-end fund balance was \$215,011.

General Fund Budgetary Highlights

The final amended revenue budget included a one-time \$400,000 transfer of DCH General Fund (GF) dollars from WCHO to Lenawee CMHA. This transfer was needed to cover the significant increase in State inpatient utilization for the year.

The expenditure budget for community inpatient also increased significantly, but was covered by adjusting other line items based on actual experience as the year progressed.

Revenue exceeded expenditures at year end thus allowing an increase in the fund balance.

Capital Asset and Debt Administration

Capital assets. The Lenawee Community Mental Health Authority's investment in capital assets as of September 30, 2006, amounts to \$688,802 (net of accumulated depreciation). This investment in capital assets includes buildings, equipment, furniture and fixtures, and vehicles. In fiscal year 2005-05, office equipment purchases were \$36,333.

| | Capital Assets (net of depreciation) | |
|------------------------|---|-------------------|
| | <u>2006</u> | <u>2005</u> |
| Buildings | \$ 382,083 | \$ 398,422 |
| Leasehold improvements | 212,824 | 228,117 |
| Equipment | 81,884 | 91,869 |
| Furniture and fixtures | 2,740 | 3,597 |
| Vehicles | <u>9,271</u> | <u>13,905</u> |
| Total | <u>\$ 688,802</u> | <u>\$ 735,910</u> |

Additional information on the Lenawee Community Health Authority's capital assets can be found in Note 3 C. on pages 18 and 19 of this report.

Long term liability. At the end of the current fiscal year, the Lenawee Community Mental Health Authority had total long term liability of \$187,388. This amount was accrued leave time for employees

Lenawee Community Mental Health Authority Long Term Liability

| | <u>2006</u> | <u>2005</u> |
|---------------|-------------------|-------------------|
| Accrued leave | <u>\$ 187,388</u> | <u>\$ 194,069</u> |
| Total | <u>\$ 187,388</u> | <u>\$ 194,069</u> |

Economic Factors and Next Year's Budget

Current Year – Fiscal Year 2005-2006

As outlined in the financial highlights, LCMHA increased net assets by \$345,169, and overall assets exceeded liabilities by \$3,469,943. LCMHA had excess revenue over expenditures of \$385,596, which constitutes an 11.8% increase over the previous year's fund balance contribution. At year end, the unreserved fund balance was \$2,753,518 or 15.7% of the total general fund expenditures. LCMHA provided a one-time 3% cost of living adjustment to their employees for FY 05/06.

Anticipated Budget and Economic Factors

The rebasing of the 05/06 Medicaid rates resulted in a reduction of Medicaid funds for the Community Mental Health Partnership of Southeast Michigan. That loss is not expected to be recovered during 06/07 or 07/08. In addition, DCH continues to express concern about fund balances as well as disproportionate shares of GF funding among all community mental health boards. Through the Funding Equity Workgroup, DCH is attempting to develop a GF redistribution plan that may result in Lenawee CMHA losing some of its GF allocation. It is noted that the current (06/07) approved spending plan for Lenawee is in balance only by drawing on its reserves in an amount exceeding \$900,000. It is likely that additional budget adjustments will be forthcoming related to Michigan's sagging economy and budget balancing initiatives at the State level.

Requests for Information

This financial report is designed to provide a general overview of the Lenawee Community Mental Health Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lenawee Community Mental Health Authority, 1040 South Winter Street, Suite #1022, Adrian, Michigan 49221.

January 19, 2007

INDEPENDENT AUDITORS' REPORT

Lenawee Community Mental
Health Authority
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lenawee Community Mental Health Authority, as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lenawee Community Mental Health 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 governmental activities, each major fund, and the aggregate remaining fund information of Lenawee Community Mental Health Authority, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2007 on our consideration of the Lenawee Community Mental Health Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

January 19, 2007

Lenawee Community Mental
Health Authority
Adrian, Michigan

The management's discussion and analysis on pages i through vi is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Lenawee Community Mental Health Authority's basic financial statements. The schedules of expenditures by program are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures by program have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan

January 19, 2007

**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**

Lenawee Community Mental
Health Authority
Adrian, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lenawee Community Mental Health Authority, as of and for the year ended September 30, 2006, which collectively comprise Lenawee Community Mental Health Authority's basic financial statements and have issued our report thereon dated January 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Lenawee Community Mental Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

January 19, 2007

Lenawee Community Mental
Health Authority
Adrian, Michigan

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of 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.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

STATEMENTS OF NET ASSETS

September 30, 2006 and 2005

| | Governmental Activities | |
|--|--------------------------------|---------------------|
| | <u>2006</u> | <u>2005</u> |
| ASSETS: | | |
| Cash on hand and deposited: | | |
| Cash on hand | \$ 345 | \$ 345 |
| Cash management accounts | 2,250,161 | 1,939,904 |
| Cash -- certificates of deposit | 2,460,301 | 2,450,446 |
| Receivables: | | |
| Accounts receivable (net of allowance \$20,000 for 2006 and 2005) | 62,159 | 90,942 |
| Other agencies: | | |
| Contract agencies | 137,494 | 344,007 |
| Accrued interest receivable | 8,770 | 6,085 |
| Due from other governmental units: | | |
| State of Michigan -- Department of Community Health | 79,234 | 83,852 |
| Investments: | | |
| Land | 2,400 | 2,400 |
| Securities | 10 | 10 |
| Prepaid expenses: | | |
| Rent | 27,116 | 27,116 |
| Insurance | 84,355 | 82,289 |
| Conferences | 3,935 | 175 |
| Dues | 6,857 | 6,790 |
| Residential and other contracts | 31,577 | 28,694 |
| Capital assets (net of accumulated depreciation): | | |
| Buildings | 382,083 | 398,422 |
| Leasehold improvements | 212,824 | 228,117 |
| Equipment | 81,884 | 91,869 |
| Furniture and fixtures | 2,740 | 3,597 |
| Vehicles | <u>9,271</u> | <u>13,905</u> |
| Total assets | <u>\$ 5,843,516</u> | <u>\$ 5,798,965</u> |
| LIABILITIES: | | |
| Accounts payable | \$ 1,087,445 | \$ 1,944,564 |
| Accrued expenses: | | |
| Salaries and wages | 118,707 | 109,359 |
| Due to State of Michigan -- Department of Community Health | 202,368 | 315,454 |
| Due to contract agencies | 777,665 | 21,867 |
| Deferred revenue | | 88,878 |
| Noncurrent Liabilities: | | |
| Due in more than one year | <u>187,388</u> | <u>194,069</u> |
| Total liabilities | <u>2,373,573</u> | <u>2,674,191</u> |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | 688,802 | 735,910 |
| Restricted for: | | |
| Hendershot Fund | 215,011 | 205,083 |
| Unrestricted | <u>2,566,130</u> | <u>2,183,781</u> |
| Total net assets | <u>\$ 3,469,943</u> | <u>\$ 3,124,774</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2006
With Comparative Totals for the Fiscal Year Ended September 30, 2005

| | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Totals</u> <u>Governmental Activities</u> | |
|---|----------------------|-----------------------------|-------------------------|--|-----------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants</u> | <u>Net (Expense) Revenue and Changes in Net Assets</u> | |
| | | | | <u>2006</u> | <u>2005</u> |
| Programs/Functions | | | | | |
| Developmental disabilities | \$ 1,148,067 | \$ 945,918 | \$ 848 | \$ (201,301) | \$ (90,323) |
| Mental illness – adult | 3,020,805 | 2,488,905 | 2,232 | (529,668) | (310,182) |
| Mental illness – child | 684,968 | 566,891 | 508 | (117,569) | (64,922) |
| Other: | | | | | |
| Contract Agencies, Block Grants, and State Institutions | 10,917,097 | 8,602,922 | 440,741 | (1,873,434) | (1,347,166) |
| RICC | 574 | | 574 | | |
| Administration | <u>1,789,531</u> | <u>1,474,432</u> | <u>1,322</u> | <u>(313,777)</u> | <u>(199,915)</u> |
| Total | <u>\$ 17,561,042</u> | <u>\$ 14,079,068</u> | <u>\$ 446,225</u> | <u>\$ (3,035,749)</u> | <u>\$ (2,012,508)</u> |
| | | | | | |
| General Revenues: | | | | | |
| Department of Community Health -- | | | | | |
| General Fund | | | | \$ 2,359,458 | \$ 1,561,046 |
| Carry forward | | | | 88,878 | 85,650 |
| Adult benefit waiver | | | | 180,291 | 185,345 |
| Title XX Replacement | | | | 1,209 | 1,209 |
| Lenawee County appropriation | | | | 365,686 | 365,686 |
| Other local | | | | 178,240 | 197,676 |
| Other earned revenue | | | | 18,823 | 14,811 |
| Interest income | | | | <u>188,333</u> | <u>110,130</u> |
| Total general revenues | | | | <u>3,380,918</u> | <u>2,521,553</u> |
| Change in net assets | | | | 345,169 | 509,045 |
| Net assets – beginning of year | | | | <u>3,124,774</u> | <u>2,615,729</u> |
| Net assets – end of year | | | | <u>\$ 3,469,943</u> | <u>\$ 3,124,774</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2006

With Comparative Totals for September 30, 2005

GOVERNMENTAL ACTIVITIES

| <u>ASSETS</u> | <u>General Fund</u> | <u>Hendershot Fund</u> | <u>2006</u> | <u>Totals</u> | <u>2005</u> |
|--|-------------------------|----------------------------|---------------------|---------------|---------------------|
| Cash on hand and deposited: | | | | | |
| Cash on hand | \$ 345 | \$ | \$ 345 | \$ | \$ 345 |
| Cash management accounts | 2,247,861 | 2,300 | 2,250,161 | | 1,939,904 |
| Cash – certificates of deposit | 2,250,000 | 210,301 | 2,460,301 | | 2,450,446 |
| Receivables: | | | | | |
| Accounts receivable (net of allowance \$20,000 for 2006 and 2005) | 62,159 | | 62,159 | | 90,942 |
| Other agencies: | | | | | |
| Contract agencies | 137,494 | | 137,494 | | 344,007 |
| Accrued interest receivable | 8,770 | | 8,770 | | 6,085 |
| Due from other governmental units: | | | | | |
| State of Michigan – Department of Community Health | 79,234 | | 79,234 | | 83,852 |
| Investments: | | | | | |
| Land | | 2,400 | 2,400 | | 2,400 |
| Securities | | 10 | 10 | | 10 |
| Prepaid expenses: | | | | | |
| Rent | 27,116 | | 27,116 | | 27,116 |
| Insurance | 84,355 | | 84,355 | | 82,289 |
| Conferences | 3,935 | | 3,935 | | 175 |
| Dues | 6,857 | | 6,857 | | 6,790 |
| Residential and other contracts | <u>31,577</u> | | <u>31,577</u> | | <u>28,694</u> |
| Total assets | <u>\$ 4,939,703</u> | <u>\$ 215,011</u> | <u>\$ 5,154,714</u> | | <u>\$ 5,063,055</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 1,087,445 | \$ | \$ 1,087,445 | | \$ 1,944,564 |
| Accrued expenses: | | | | | |
| Salaries and wages | 118,707 | | 118,707 | | 109,359 |
| Due to State of Michigan - Depart- ment of Community Health | 202,368 | | 202,368 | | 315,454 |
| Due to contract agencies | 777,665 | | 777,665 | | 21,867 |
| Deferred revenue | | | | | <u>88,878</u> |
| Total liabilities | <u>2,186,185</u> | <u>-</u> | <u>2,186,185</u> | | <u>2,480,122</u> |
| Fund balance: | | | | | |
| Reserved for: | | | | | |
| Hendershot Fund | | 215,011 | 215,011 | | 205,083 |
| Unreserved | <u>2,753,518</u> | | <u>2,753,518</u> | | <u>2,377,850</u> |
| Total fund balance (See Note 6) | <u>2,753,518</u> | <u>215,011</u> | <u>2,968,529</u> | | <u>2,582,933</u> |
| Total liabilities and fund balance | <u>\$ 4,939,703</u> | <u>\$ 215,011</u> | <u>\$ 5,154,714</u> | | <u>\$ 5,063,055</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

September 30, 2006

Amounts reported for governmental activities in the Statement of Net Assets (page 5)
are different because:

| | |
|---|---------------------|
| Total fund balance – Governmental Funds (page 7) | \$ 2,968,529 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements. | 688,802 |
| Long term liabilities are not a use of current financial resources and, therefore, are not reported in the fund statements. | <u>(187,388)</u> |
| Net assets of Governmental Activities (Page 5) | <u>\$ 3,469,943</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Fiscal Year Ended September 30, 2006
With Comparative Totals for the Fiscal Year Ended September 30, 2005

| | <u>GOVERNMENTAL ACTIVITIES</u> | | | |
|---|--------------------------------|----------------------------------|---------------------|------------------------------|
| | <u>General</u> <u>Fund</u> | <u>Hendershot</u> <u>Fund</u> | <u>2006</u> | <u>Totals</u> <u>2005</u> |
| Revenues | | | | |
| Grants and appropriations: | | | | |
| State of Michigan: | | | | |
| Department of Community Health | \$ 2,359,458 | \$ | \$ 2,359,458 | \$ 1,561,046 |
| DCH carry forward | 88,878 | | 88,878 | 85,650 |
| RICC | 574 | | 574 | 715 |
| Title XX Replacement | 1,209 | | 1,209 | 1,209 |
| Adult benefit waiver | 180,291 | | 180,291 | 185,345 |
| Federal Government: | | | | |
| Block Grants | 162,803 | | 162,803 | 205,938 |
| Lenawee County: | | | | |
| County appropriation | 365,686 | | 365,686 | 365,686 |
| Contract Agencies Match | 108,152 | | 108,152 | 107,115 |
| Miscellaneous donations | 4,910 | | 4,910 | 4,393 |
| Other local | <u>178,240</u> | <u> </u> | <u>178,240</u> | <u>197,676</u> |
| | <u>3,450,201</u> | <u>-</u> | <u>3,450,201</u> | <u>2,714,773</u> |
| Earned revenues and reimbursements: | | | | |
| Charge for services – self-pay and insurance - net of discount | 78,090 | | 78,090 | 40,399 |
| State of Michigan – Medicaid reimbursements | 14,000,979 | | 14,000,979 | 13,495,030 |
| OBRA | 169,786 | | 169,786 | 156,443 |
| Other earned revenue | <u>18,823</u> | <u> </u> | <u>18,823</u> | <u>14,811</u> |
| | <u>14,267,678</u> | <u>-</u> | <u>14,267,678</u> | <u>13,706,683</u> |
| Interest income | <u>178,405</u> | <u>9,928</u> | <u>188,333</u> | <u>110,130</u> |
| Total revenues | <u>17,896,284</u> | <u>9,928</u> | <u>17,906,212</u> | <u>16,531,586</u> |
| Expenditures: | | | | |
| Developmental disabilities | 1,137,215 | | 1,137,215 | 1,085,233 |
| Mental illness – adult | 3,012,113 | | 3,012,113 | 2,590,035 |
| Mental illness – child | 684,968 | | 684,968 | 544,600 |
| Other: | | | | |
| Contract Agencies, Block Grants, and State Institutions | 10,917,097 | | 10,917,097 | 10,087,762 |
| RICC | 574 | | 574 | 715 |
| Administration | <u>1,768,649</u> | <u> </u> | <u>1,768,649</u> | <u>1,626,685</u> |
| Total expenditures | <u>17,520,616</u> | <u>-</u> | <u>17,520,616</u> | <u>15,935,030</u> |
| Excess of revenues over expenditures | 375,668 | 9,928 | 385,596 | 596,556 |
| Remodeling and capital asset purchases | <u> </u> | <u> </u> | <u> </u> | <u>(251,580)</u> |
| Net change | 375,668 | 9,928 | 385,596 | 344,976 |
| Fund balances at beginning of year | <u>2,377,850</u> | <u>205,083</u> | <u>2,582,933</u> | <u>2,237,957</u> |
| Fund balances at end of year | <u>\$ 2,753,518</u> | <u>\$ 215,011</u> | <u>\$ 2,968,529</u> | <u>\$ 2,582,933</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

September 30, 2006

Amounts reported for governmental activities in the Statement
Revenues, Expenditures and Changes in Fund Balances
(page 9) are different because:

Net change in fund balances – total Governmental Funds (page 9) \$ 385,596

Governmental funds report capital outlay as expenditures.
However, in the Statement of Activities, the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which depreciation exceeded capital outlay expense for
the current period. (47,108)

Some expenses reported in the Statement of Activities
do not require the use of current financial resources
and, therefore, are not reported as expenditures in the
governmental funds (net accrued leave time). 6,681

Change in net assets of Governmental Activities (page 6) \$ 345,169

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For the Fiscal Year Ended September 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Over (Under)</u> |
|--|-------------------------|---------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Grants and appropriations: | | | | |
| State of Michigan: | | | | |
| Department of Community Health | \$ 1,883,561 | \$ 2,359,458 | \$ 2,359,458 | \$ |
| DCH carry forward | 88,878 | 88,878 | 88,878 | |
| RICC | | | 574 | 574 |
| Title XX Replacement | 1,209 | 1,209 | 1,209 | |
| Adult benefit waiver | 180,000 | 180,000 | 180,291 | 291 |
| Federal Government: | | | | |
| Block Grants | 202,716 | 162,803 | 162,803 | |
| Lenawee County: | | | | |
| County appropriation | 365,686 | 365,686 | 365,686 | |
| Contract Agencies Match | 60,000 | 105,000 | 108,152 | 3,152 |
| Miscellaneous donations | 5,000 | 4,900 | 4,910 | 10 |
| Other local | <u>215,000</u> | <u>178,000</u> | <u>178,240</u> | <u>240</u> |
| | <u>3,002,050</u> | <u>3,445,934</u> | <u>3,450,201</u> | <u>4,267</u> |
| Earned revenues and reimbursements: | | | | |
| Charge for services - self-pay and insurance - net of discount | 44,000 | 78,000 | 78,090 | 90 |
| State of Michigan - Medicaid reimbursements | 14,081,630 | 13,988,000 | 14,000,979 | 12,979 |
| OBRA | 160,000 | 169,000 | 169,786 | 786 |
| Other earned revenue | <u>14,000</u> | <u>18,600</u> | <u>18,823</u> | <u>223</u> |
| | <u>14,299,630</u> | <u>14,253,600</u> | <u>14,267,678</u> | <u>14,078</u> |
| Interest income | <u>130,000</u> | <u>178,000</u> | <u>178,405</u> | <u>405</u> |
| Total revenues | <u>17,431,680</u> | <u>17,877,534</u> | <u>17,896,284</u> | <u>18,750</u> |
| Expenditures: | | | | |
| Compensation and fringes: | | | | |
| Salaries and wages | 3,057,601 | 2,939,500 | 2,935,008 | (4,492) |
| Fringes | 1,378,435 | 1,265,000 | 1,261,524 | (3,476) |
| Per diem expenditures | <u>20,000</u> | <u>20,000</u> | <u>19,925</u> | <u>(75)</u> |
| Total compensation and fringes carried forward | <u>\$ 4,456,036</u> | <u>\$ 4,224,500</u> | <u>\$ 4,216,457</u> | <u>\$ (8,043)</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For the Fiscal Year Ended September 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Over (Under)</u> |
|---|-------------------------|-------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Total compensation and fringes carried forward | \$ 4,456,036 | \$ 4,224,500 | \$ 4,216,457 | \$ (8,043) |
| State Institutions, Contract Agencies, and Other: | | | | |
| State Institutions | 608,787 | 1,050,000 | 1,043,026 | (6,974) |
| Hope Community Center | 10,000 | 10,000 | 10,000 | |
| Community Psychiatric Inpatient | 325,000 | 750,000 | 733,050 | (16,950) |
| Residential Services | 6,408,000 | 5,726,016 | 5,706,316 | (19,700) |
| Drop In Center | 55,000 | 54,240 | 54,240 | |
| Wraparound Services | 128,471 | 128,471 | 128,471 | |
| Clinical Services | 2,675,858 | 2,675,000 | 2,653,748 | (21,252) |
| WCHO Administration | | 246,306 | 246,306 | |
| Recipient Rights | 87,000 | 93,660 | 93,660 | |
| Local Match Obligation | 152,631 | 152,631 | 152,631 | |
| Community Action Agency | 46,000 | 46,000 | 45,642 | (358) |
| NYPUM | 15,000 | 8,000 | 7,715 | (285) |
| Client transportation | 125,000 | 43,000 | 42,782 | (218) |
| Total State Institutions, Contract Agencies, and Other | <u>10,636,747</u> | <u>10,983,324</u> | <u>10,917,587</u> | <u>(65,737)</u> |
| General expenditures: | | | | |
| Office supplies | 15,000 | 22,000 | 21,317 | (683) |
| Computer software | 50,000 | 5,300 | 5,225 | (75) |
| Operating supplies | 35,000 | 46,000 | 45,107 | (893) |
| Client services | 5,000 | 9,000 | 6,783 | (2,217) |
| Professional services | 1,343,000 | 1,472,100 | 1,467,748 | (4,352) |
| Communication | 100,000 | 105,000 | 102,936 | (2,064) |
| Travel | 80,000 | 85,000 | 83,172 | (1,828) |
| Printing and publishing | 25,000 | 23,000 | 22,477 | (523) |
| Insurance | 35,000 | 30,000 | 27,431 | (2,569) |
| Software/hardware maintenance | 100,000 | 80,000 | 78,658 | (1,342) |
| Equipment maintenance | 32,000 | 30,000 | 29,281 | (719) |
| Building rental | 325,397 | 325,397 | 325,400 | 3 |
| Membership and dues | 10,000 | 10,000 | 9,925 | (75) |
| Equipment | 50,000 | 50,000 | 47,539 | (2,461) |
| Staff development | 35,000 | 32,000 | 31,798 | (202) |
| Recruitment | 3,500 | 12,000 | 11,749 | (251) |
| Miscellaneous medical | 5,000 | 9,000 | 8,928 | (72) |
| Public relations/marketing | 20,000 | 28,000 | 26,365 | (1,635) |
| Computer hardware | 70,000 | 35,000 | 34,733 | (267) |
| Total general expenditures | <u>2,338,897</u> | <u>2,408,797</u> | <u>2,386,572</u> | <u>(22,225)</u> |
| Total expenditures | <u>17,431,680</u> | <u>17,616,621</u> | <u>17,520,616</u> | <u>(96,005)</u> |
| Excess of revenues over expenditures | | 260,913 | 375,668 | |
| Fund balance at beginning of year | | | 2,377,850 | |
| Fund balance at end of year | | | <u>\$ 2,753,518</u> | |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lenawee Community Mental Health Authority (LCMHA) 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. REPORTING ENTITY

The Lenawee Community Mental Health Authority is a member of the Community Mental Health Partnership of Southeast Michigan. This partnership is composed of the community health programs in Lenawee, Livingston, Monroe, and Washtenaw Counties and was formed under the authority of the Intergovernmental Contracts Between Municipal Corporations Act.

The partnership was formally created by written agreement and official approval of the boards of the partners commencing on January 1, 2002. The agreement established a legal mechanism for the preparation, submission, and implementation of a "Consolidated Application to the Michigan Department of Community Health" for a "Medicaid Prepaid Health Plan". Said plan was to ensure the continuation of necessary funding to each of the partners to provide services to the Medicaid-eligible persons in their respective communities. The Community Mental Health Partnership of Southeast Michigan was successful in its application to MDCH.

The partnership continues to operate under its original agreement. An "Affiliation Executive Committee" (AEC) supervises and administers the execution of the agreement. The AEC is comprised of the Executive Director from each participating organization, the Executive Director of the Washtenaw Community Health Organization (WCHO) and a representative from the University of Michigan. The WCHO is designated as the lead agency for the partnership. Operating under a master contract with Michigan Department of Community Health for Medicaid Capitation Funds, the WCHO executes its fiduciary responsibilities for the receipt, management, and distribution of the Medicaid funds for the region through individual sub-contracts with each of the partners.

The Lenawee Community Mental Health Authority is still a separate entity accounting for its own financial activity, except as reported above for Medicaid.

The Hendershot Fund is a Permanent Fund where Community Mental Health acts in a trustee capacity in handling designated assets, which are to be used in the research of causes and treatment of mental illness.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include 1) charges to clients for services provided by a given program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Items not properly included among program revenues are reported instead as *general revenues*.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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

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*. 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period, usually defined as within 90 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt expenditures are recorded only when payment is due.

Amounts due from the State and services provided associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *Henderson Fund* is a permanent fund which restricts the use of funds for the research of causes and treatment of mental illness. These purposes are in line with Lenawee Community Mental Health Authority's functions.

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

Amounts reported as *program revenues* included 1) charges to clients or State for services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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.

E. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. CASH AND INVESTMENTS

Cash includes amounts in cash on hand, demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the Authority.

Investments are shown in Note 3.

2. 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.

3. CAPITAL ASSETS

Capital assets, which include buildings, furniture and fixtures, office equipment, and vehicles are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Property, plant, and equipment of the Authority are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|------------------------|--------------|
| Buildings | 30 |
| Leasehold improvements | 15 |
| Furniture and Fixtures | 10 |
| Office Equipment | 5 |
| Vehicles | 7 |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (Continued)

4. 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, 2006 was \$187,388 and \$194,069 at September 30, 2005.

5. LONG-TERM OBLIGATIONS

In the governmental-wide financial statements, any long-term debt and other long-term obligations are reported as liabilities

6. FUND EQUITY

In the fund financial statements, the Authority reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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 2005-06.

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. CASH AND INVESTMENTS

At year end, the carrying value of Community Mental Health's deposits in cash management accounts was \$2,250,161 and bank balance was \$3,210,622. Of the bank balance, \$100,000 was covered by federal depository insurance and the remainder was uninsured. All deposits are with banks located in Michigan as required by statutes.

Lenawee Community Mental Health Authority invests only in investments allowed under State law.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

A. CASH AND INVESTMENTS (Continued)

The Authority limits its exposure to interest rate risk and credit rate risk by investing in conservative instruments like certificates of deposits with terms of six months or less. There is exposure to custodial credit risk since all investments are with two institutions and investments are not fully covered by insurance. Only \$200,000 of the total certificate of deposit investment of \$2,460,301 is covered by depository insurance.

Cash/investments in the General Fund are as follows:

| | <u>2006</u> | <u>2005</u> |
|----------------------------------|---------------------|---------------------|
| United Bank & Trust | | |
| Cash Management Accounts – 3.63% | \$ 2,247,861 | \$ 1,937,677 |
| Flagstar Bank | | |
| Certificates of Deposit – | | |
| at 5.470% due 1/23/07 | 750,000 | |
| at 5.470% due 12/26/06 | 750,000 | |
| at 5.450% due 11/28/06 | 750,000 | |
| at 3.9810%, due 11/01/05 | | 750,000 |
| at 3.9880%, due 11/15/05 | | 750,000 |
| at 4.0320%, due 11/29/05 | | 750,000 |
| | <u>\$ 4,497,861</u> | <u>\$ 4,187,677</u> |

Cash/investments in the Hendershot Fund are as follows:

| | <u>2006</u> | <u>2005</u> |
|---|-------------------|-------------------|
| United Bank & Trust | | |
| Cash Management Account – 3.49% | \$ 2,300 | \$ 2,227 |
| Bank of Lenawee | | |
| Certificate of Deposit – | | |
| at 4.0290%, due 11/22/05 | | 200,446 |
| Flagstar Bank | | |
| Certificate of Deposit – | | |
| at 5.47%, due 1/09/07 | 210,301 | |
| | <u>\$ 212,601</u> | <u>\$ 202,673</u> |
| Other: | | |
| Land: | | |
| Two lots located in Tecumseh, Michigan | \$ 2,400 | \$ 2,400 |
| Security: | | |
| One share of Lenawee Farm Bureau Oil Cooperative | \$ 10 | \$ 10 |

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

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

B. DUE FROM STATE OF MICHIGAN – DEPARTMENT OF COMMUNITY HEALTH

The breakdown is:

| | <u>2006</u> | <u>2005</u> |
|------------------------------|------------------|-------------------|
| Reimbursement Under OBRA | \$ 37,525 | \$ 31,511 |
| Children Respite Block Grant | 798 | 473 |
| Wraparound Block Grant | 21,867 | 21,867 |
| FAS Grant | | 2,885 |
| Gerontology Block Grant | 18,036 | 16,285 |
| New Focus Block Grant | | 10,831 |
| MI Child | <u>1,008</u> | <u> </u> |
| | <u>\$ 79,234</u> | <u>\$ 83,852</u> |

C. CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings | \$ 490,169 | \$ | \$ | \$ 490,169 |
| Leasehold improvements | 229,391 | | | 229,391 |
| Furniture and fixtures | 67,565 | | | 67,565 |
| Office equipment | 456,483 | 36,333 | (31,066) | 461,750 |
| Vehicles | <u>32,446</u> | <u> </u> | <u> </u> | <u>32,446</u> |
| Total capital assets, being depreciated | <u>1,276,054</u> | <u>36,333</u> | <u>(31,066)</u> | <u>1,281,321</u> |
| Less: Accumulated depreciation for: | | | | |
| Buildings | 91,747 | 16,339 | | 108,086 |
| Leasehold improvements | 1,274 | 15,293 | | 16,567 |
| Furniture and fixtures | 63,968 | 857 | | 64,825 |
| Office equipment | 364,614 | 46,318 | (31,066) | 379,866 |
| Vehicles | <u>18,541</u> | <u>4,634</u> | <u> </u> | <u>23,175</u> |
| Total accumulated depreciation | <u>540,144</u> | <u>83,441</u> | <u>(31,066)</u> | <u>592,519</u> |
| Total capital assets, being depreciated, net | <u>\$ 735,910</u> | <u>\$ (47,108)</u> | <u>\$ -</u> | <u>\$ 688,802</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

C. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the Authority as follows:

| | <u>2006</u> | <u>2005</u> |
|----------------------------|------------------|------------------|
| Developmental Disabilities | \$ 10,853 | \$ 10,853 |
| Mental Illness – Adult | 10,292 | 10,122 |
| Administration | <u>62,296</u> | <u>47,047</u> |
| | <u>\$ 83,441</u> | <u>\$ 68,022</u> |

D. 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 the 'General Fund' funding 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, 2006 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, 2006 and 2005 of amounts billed for the State Institution charges for County residents.

| | <u>2006</u> | <u>2005</u> |
|--|-------------------|-------------------|
| Unpaid State Institution charges for County Residents | \$ 202,012 | \$ 81,817 |
| DCH cost settlement | | 233,637 |
| Payback on RICC Funding | <u>356</u> | <u> </u> |
| | <u>\$ 202,368</u> | <u>\$ 315,454</u> |

Note: Lenawee Community Mental Health Authority had no signed contract with Michigan Department of Community Health for fiscal year 2005-06.

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

E. LEASE COMMITMENTS

Community Mental Health currently leases its main facility from Lenawee County on a sixty month lease ending February 28, 2011 with monthly payments of \$27,116.

Eleven residential facilities are leased from independent third parties on three to six year terms. Lease payments currently total \$22,452 per month.

Annual future lease commitments are as follows:

| <u>Fiscal Year</u> | <u>Commitment</u> |
|--------------------|---------------------|
| 2006-2007 | \$ 526,036 |
| 2007-2008 | 445,309 |
| 2008-2009 | 374,959 |
| 2009-2010 | 354,423 |
| 2010-2011 | 162,744 |
| After 9/30/11 | <u>54,328</u> |
| | <u>\$ 1,917,799</u> |

F. LONG-TERM LIABILITY

Long-term liability activity for the year ended September 30, 2006 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|-------------------|---------------------------|
| Accrued leave | \$ <u>194,069</u> | \$ _____ | \$ <u>(6,681)</u> | \$ <u>187,388</u> |
| Governmental activity - long-term liability | \$ <u>194,069</u> | \$ _____ | \$ <u>(6,681)</u> | \$ <u>187,388</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 4. OTHER INFORMATION

RETIREMENT PLAN

Plan Description

The Authority maintains a single-employer defined benefit plan (Lenawee Community Mental Health Authority Pension Plan) that covers all eligible employees through a private insurance company that acts as investment and administrative agent for the Authority. The insurance company issues an actuarial report annually, which is available at the Authority's office.

Summary of Significant Accounting Policies

The Authority's contributions are recognized when due and a formal commitment to provide the contributions has been made.

Funding Policy

Employees contribute 2.5% of annual compensation. The contribution requirements for the Authority are determined by the actuary. The employer contribution consists of the actuarial determined normal cost and a portion of unfunded liability (fifteen (15) year amortization) plus an 8% interest factor.

Annual Pension Cost

For the year ended September 30, 2006, the Authority's annual pension cost was \$328,616, which equals the required contribution. The required contribution was determined by using projected unit credit cost method. The actuarial assumptions included (a) 8% investment rate of return (b) projected salary increases of 3% per year. The unfunded actuarial accrued liability is being amortized over a fifteen (15) year period. The required employer contribution for fiscal year 2007-08 is \$308,007.

Schedule of Funding Progress

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets [a]</u> | <u>Actuarial Accrued Liability (AAL) Entry Age [b]</u> | <u>Unfunded AAL (UAAL) [b-a]</u> | <u>Funded Ratio [a/b]</u> | <u>Covered Payroll [c]</u> | <u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 1/1/04 | \$ 3,574,191 | \$ 3,870,771 | \$ 296,580 | 92.34% | \$ 2,503,340 | 11.85% |
| 1/1/05 | 4,229,749 | 4,488,460 | 258,711 | 94.24% | 2,590,482 | 9.99% |
| 1/1/06 | 4,830,132 | 5,222,309 | 392,177 | 92.49% | 2,915,896 | 13.45% |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE 4. OTHER INFORMATION (Continued)

RETIREMENT PLAN (Continued)

Schedule of Employer Contributions

| <u>Fiscal Year Ending</u> | <u>Annual Required Contribution (ARC)</u> | <u>Percentage of ARC Recognized</u> |
|-------------------------------|---|---|
| 9/30/04 | \$ 273,366 | 100% |
| 9/30/05 | 282,881 | 100% |
| 9/30/06 | 328,616 | 100% |

NOTE 5. RECONCILIATION OF GENERAL FUND TOTAL EXPENDITURES
TO DCH COST SETTLEMENT TOTAL EXPENDITURES

| | <u>2006</u> |
|---|----------------------|
| Total expenditures – General Fund (Page 12) | \$ 17,520,616 |
| Add: Depreciation expense on only items capitalized in fiscal year 2005-06, 2004-05, and 2003-04 | 37,203 |
| LESS: New equipment capitalized in fiscal Year 2005-06 | <u>(36,335)</u> |
| Total expenditures per DCH cost settlement | <u>\$ 17,521,484</u> |

NOTE 6. RECONCILIATION OF FUND BALANCE OF GENERAL FUND
TO LCMHA FUND BALANCE

| | <u>Year Ended September 30 2006</u> |
|--|---|
| Fund balance – General Fund (Page 7) | \$ 2,753,518 |
| Add: Capital assets (after October 1, 2002) net of accumulated depreciation | <u>294,709</u> |
| Fund balance – LCMHA | <u>\$ 3,048,227</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2006

| | <u>ADMINISTRATION</u> | | |
|--|----------------------------|-----------------------|-----------------------|
| | <u>Executive Board</u> | <u>Fiscal</u> | <u>MIS</u> |
| Compensation and fringes: | | | |
| Salaries and wages | \$ 566,702 | \$ 223,683 | \$ 65,761 |
| 255,458 | 255,458 | 93,839 | 31,345 |
| Per diem expenditures | <u>19,925</u> | <u> </u> | <u> </u> |
| Total compensation and fringes | <u>842,085</u> | <u>317,522</u> | <u>97,106</u> |
| General expenditures: | | | |
| Office supplies | 7,820 | 2,184 | 4,536 |
| Computer software | | | 5,225 |
| Operating supplies | 29,192 | 485 | 964 |
| Professional services | 16,569 | | 2,531 |
| Communication | 27,159 | 9,226 | 7,269 |
| Travel | 22,409 | 9,713 | |
| Printing and publishing | 22,477 | | |
| Insurance | 5,399 | 2,449 | 601 |
| Software/hardware maintenance | | 71,706 | 6,952 |
| Equipment maintenance | 9,930 | 2,230 | 503 |
| Building rental | 39,104 | 62,119 | 13,796 |
| Membership and dues | 9,925 | | |
| Equipment acquisitions | 31,498 | 246 | 44,603 |
| Staff development | 16,382 | 993 | |
| Public relations/marketing | 26,365 | | |
| Recruitment | <u>(787)</u> | <u>163</u> | <u> </u> |
| Total general expenditures | <u>263,442</u> | <u>161,514</u> | <u>86,980</u> |
| Subtotal - direct expenditures | 1,105,527 | 479,036 | 184,086 |
| Administrative expense allocation | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>\$ 1,105,527</u> | <u>\$ 479,036</u> | <u>\$ 184,086</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2006

| | <u>DEVELOPMENTAL DISABILITIES</u> | |
|-----------------------------------|-----------------------------------|----------------------------------|
| | <u>Support Services</u> | <u>Supports Coordination</u> |
| Compensation and fringes: | | |
| Salaries and wages | \$ 315,320 | \$ 308,221 |
| Fringes | <u>132,216</u> | <u>140,299</u> |
| Total compensation and fringes | <u>447,536</u> | <u>448,520</u> |
| General expenditures: | | |
| Office supplies | 893 | 1,708 |
| Operating supplies | 241 | 766 |
| Professional services | | 116,702 |
| Communication | 8,788 | 11,572 |
| Travel | 5,802 | 6,753 |
| Insurance | 2,614 | 3,154 |
| Equipment maintenance | 2,189 | 2,642 |
| Building rental | 25,151 | 34,796 |
| Staff development | 1,532 | 1,284 |
| Miscellaneous medical | 8,928 | |
| Recruitment | | 4,168 |
| Equipment acquisitions | <u> </u> | <u>1,476</u> |
| Total general expenditures | <u>56,138</u> | <u>185,021</u> |
| Subtotal - direct expenditures | 503,674 | 633,541 |
| Administrative expense allocation | <u>170,492</u> | <u>214,452</u> |
| Total expenditures | <u>\$ 674,166</u> | <u>\$ 847,993</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2006

| | <u>MENTAL ILLNESS -- ADULT</u> | | |
|-----------------------------------|----------------------------------|-------------------|------------------------------|
| | <u>Supports Coordination</u> | <u>Access</u> | <u>Medication Clinic</u> |
| Compensation and fringes: | | | |
| Salaries and wages | \$ 481,649 | \$ 433,862 | \$ 214,265 |
| Fringes | <u>203,683</u> | <u>193,108</u> | <u>71,756</u> |
| Total compensation and fringes | <u>685,332</u> | <u>626,970</u> | <u>286,021</u> |
| General expenditures: | | | |
| Office supplies | 1,618 | 1,159 | 472 |
| Operating supplies | 1,874 | 5,491 | 5,535 |
| Professional services | | | 1,193,091 |
| Client services | 6,783 | | |
| Communication | 15,151 | 13,384 | 3,049 |
| Travel | 15,717 | 6,209 | 41 |
| Client transportation | 3,682 | | |
| Insurance | 6,353 | 3,469 | 1,321 |
| Equipment maintenance | 6,040 | 2,905 | 1,107 |
| Building rental | 29,996 | 37,976 | 37,976 |
| Equipment expense | 1,283 | | 1,690 |
| Staff development | 2,411 | 3,528 | 207 |
| Recruitment | <u>2,156</u> | <u>844</u> | <u>1,272</u> |
| Total general expenditures | <u>93,064</u> | <u>74,965</u> | <u>1,245,761</u> |
| Subtotal - direct expenditures | 778,396 | 701,935 | 1,531,782 |
| Administrative expense allocation | <u>263,485</u> | <u>237,603</u> | <u>518,504</u> |
| Total expenditures | <u>\$ 1,041,881</u> | <u>\$ 939,538</u> | <u>\$ 2,050,286</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2006

MENTAL ILLNESS – CHILD

| | <u>Supports Coordination</u> |
|-----------------------------------|----------------------------------|
| Compensation and fringes: | |
| Salaries and wages | \$ 325,545 |
| Fringes | <u>139,820</u> |
| Total compensation and fringes | <u>465,365</u> |
| General expenditures: | |
| Office supplies | 927 |
| Operating supplies | 559 |
| Professional services | 135,663 |
| Communication | 7,338 |
| Travel | 16,454 |
| Insurance | 2,071 |
| Equipment maintenance | 1,735 |
| Building rental | 44,486 |
| Staff development | 4,961 |
| Recruitment | 3,933 |
| Equipment expense | <u>1,476</u> |
| Total general expenditures | <u>219,603</u> |
| Subtotal - direct expenditures | 684,968 |
| Administrative expense allocation | <u>231,860</u> |
| Total expenditures | <u>\$ 916,828</u> |

LENAWEE COMMUNITY MENTAL HEALTH AUTHORITY

GENERAL FUND

SCHEDULE OF EXPENDITURES BY PROGRAM

For the Year Ended September 30, 2006

| | <u>OTHER</u> | | |
|---|-------------------------|---------------|------------------------------|
| | <u>Block Grants</u> | <u>RICC</u> | <u>Contract Agencies</u> |
| State Institutions, Contract Agencies, and Other: | | | |
| State Institutions | \$ | \$ | \$ 1,043,026 |
| Hope Community Center | | | 10,000 |
| Community Psychiatric Inpatient | | | 733,050 |
| Residential Services | | | 5,706,316 |
| Drop In Center | | | 54,240 |
| Wraparound Services | | | 128,471 |
| Respite | 3,192 | | |
| Clinical Services | 72,146 | | 2,581,602 |
| WCHO Administration | | | 246,306 |
| Recipient Rights | | | 93,660 |
| Local Match Obligation | | | 152,631 |
| Community Action Agency | | | 45,642 |
| NYPUM | | | 7,715 |
| Client Transportation | | | 39,100 |
| | <u>75,338</u> | <u>-</u> | <u>10,841,759</u> |
| Total State Institutions, Contract Agencies, and Other | | | |
| General expenditures: | | | |
| Travel | | 74 | |
| Staff development | | 500 | |
| | <u>-</u> | <u>574</u> | <u>-</u> |
| Total general expenditures | | | |
| Subtotal - direct expenditures | 75,338 | 574 | 10,841,759 |
| Administrative expense allocation | <u>2,152</u> | <u>-</u> | <u>130,101</u> |
| Total expenditures | <u>\$ 77,490</u> | <u>\$ 574</u> | <u>\$ 10,971,860</u> |