North Country Community Mental Health

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2009

Dennis, Gartland & Niergarth

C O N T E N T S

North Country Community Mental Health

MANAGEMENT DISCUSSION AND ANALYSIS

Using this Annual Report

The management of North Country Community Mental Health (the "Authority") offers readers of the Authority's financial statements this narrative overview and analysis for the fiscal year ended September 30, 2009. This discussion and analysis is offered at the beginning of the audit to provide in layman's terms the current position of the Authority's financial condition. This summary should not be taken as a replacement for the audit, which consists of financial statements and other supplemental information for the Authority's Enterprise and Internal Service Funds. Our auditors, Dennis, Gartland, & Niergarth have not audited the Management Discussion and Analysis.

The audited financial statements of the Authority for fiscal year 2009 are presented using an Enterprise Fund accounting methodology. Governmental entities that have single programs are allowed to present a combined government-wide and fund financial statement by using a columnar format that requires no reconciliation between fund types. Using this alternative approach, the financial information is presented in a manner similar to that of private sector companies. It is intended that this new reporting approach give the reader a clearer picture of the organization's financial condition.

Overview of the Financial Statements

The statements offer short and long-term financial information about the Authority's activities. The Statement of Net Assets presents all of the Authority's assets and liabilities. It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial health.

The Statement of Revenue, Expenses, and Changes in Fund Net Assets presents the audited fiscal year's revenue and expenses. This statement indicates whether sufficient revenue was received to offset incurred expenses.

The Statement of Cash Flows reports cash receipts, cash disbursements, and net changes in cash for the audited fiscal year. This statement indicates the source of cash received, how cash was disbursed, and changes in cash balance during the reporting period.

Financial Analysis of the Authority

The table below shows a comparison of the net assets of North Country Community Mental Health as of September 30, 2009 compared to those of the prior year.

	Enterprise Activities	
	2008-09	2007-08
Current assets	$ 6,613,075	$ 7,883,609
Capital assets	2,163,094	2,227,949
Total assets	8,776,169	10,111,558
Current liabilities	3,253,676	2,949,504
Non-current liabilities (long term debt)	1,615,372	1,636,006
Total liabilities	4,869,048	4,585,510
Net Assets		
Invested in capital assets, (net of debt)	1,104,338	1,122,318
Restricted Code Reserves	774,808	2,335,384
Unrestricted	2,027,975	2,068,346
Total net assets	$ 3,907,121	$ 5,526,048

The Authority's net assets were $3,907,121 on September 30, 2009 and $5,526,048 on September 30, 2008. Of this amount, the unrestricted portion was $2,027,975 on September 30, 2009 and $2,068,346 on September 30, 2008. Unrestricted net assets can be used to finance the day-to-day operations of the Authority. Restricted assets are to be used for a specific purpose.

As allowed by the Michigan Mental Health Code and the Authority's intergovernmental contracts, the Authority has established internal service funds to reserve a portion of its cash balances to fund demand risk associated with the Medicaid capitated funding arrangement with the State of Michigan and State facility usage risk. The Authority's total Restricted Internal Service Funds decreased $1,558,449 or 69.8% from a year ago.

During fiscal year 2009, the Authority had $1,104,338 invested in capital assets, net of related debt and $612,587 of accrued compensated absences. Additional information on these balances can be found in the notes to the financial statements portion of the audit.

The table below shows a comparison of the change in net assets of the Authority as of September 30, 2009 compared to the prior year.

	Enterprise Activities	
	2008-09	2007-08
Total operating revenue	$ 67,244,384	$ 65,185,892
Non-operating revenue	57,085	836,872
	67,301,469	66,022,764
Health and human services expense		
Developmental disability expense	18,301,449	17,337,077
Mentally ill adult	8,874,036	10,036,977
Mentally ill child	2,122,136	1,358,164
Other support services expense	364,378	300,153
Board administration expense	2,419,765	2,470,003
Managed Care Operations	36,838,632	35,001,375
Total expenses	68,920,396	66,503,749
Changes in net assets	$(1,618,927)	$(480,985)

Total revenues increased by 1.9% while total expense increased by 3.6% in FY09.

Expenditure and Revenue Highlights

Over the course of the year, the Authority amended the budget once to take into account changes in funding and expenditure amounts.

At the beginning of fiscal year 2009, North Country Community Mental Health anticipated that it would have to withdraw $1,987,128 from its Medicaid Internal Service Fund in order to balance the budget. At fiscal year close, $1,563,110 was actually withdrawn from the Medicaid Internal Service Fund to fund the Medicaid shortfall. At fiscal year-end, North Country Community Mental Health Provider Operations under spent its original Medicaid budget by $271,662. Affiliate AuSable Valley Community Mental Health over spent its original Medicaid budget by $112,498 and affiliate Northeast Michigan Community Mental Health over spent its original Medicaid budget by $196,987. All Medicaid capitation funds received and accrued were expended at the end of fiscal year 2009. No Medicaid capitation funds were carried forward to fiscal year 2010 or returned to the Department of Community Health in fiscal year 2009.

During fiscal year 2009, North Country Community Mental Health received a State General Funds cut in the amount of $77,759. At fiscal year-end, State General Fund expenditures were $8,770 more than allocated by the Michigan Department of Community Health. The Authority used unrestricted fund balance to cover the shortfall. The Authority returned $135,750 in unspent categorical funds to the Department.

Additionally, in FY2009, North Country Community Mental Health required $1,391,644 in local match to meet its obligation. Local match received in FY2009 was $1,344,161, resulting in a deficit of $47,483. The deficit was also funded with unrestricted fund balance.

Capital Asset and Debt Administration

As of September 30, 2009, the Authority had $1,104,388 invested in net capital assets, including land, buildings, equipment, furniture, and vehicles. This is a decrease of $17,980 or 1.6% as compared to fiscal year 2008. The total debt related to fixed assets decreased $46,875.

The most significant capital asset purchases during fiscal year 2009 were vehicles and computer equipment.

Looking Forward to FY10 and Beyond

With the State of Michigan continuing to face economic uncertainty, the Authority's budget outlook for fiscal year 2010 and beyond is uncertain. The level of Medicaid funding is still questionable as Medicaid rates have not been confirmed by the Department of Community Health. The balance in the Medicaid risk pool at the end of FY09 is $657,485. This is $1,549,904 less than at the end of FY08.

State allocated General Funds are expected to decrease in fiscal year 2010 and beyond; however demand for services has not diminished. State allocated General Funds are used to serve an indigent population that does not qualify for Medicaid and other State funded insurance programs. During FY2010, some services funded by General Fund dollars have already been cut. It is expected that more General Fund cuts may occur in FY2011, given the dismal outlook of the State of Michigan's revenue projections.

Management will continue to monitor the status of revenue and expenditure and report changes to the Authority's Finance Committee and Board on a regular basis.

The Authority is planning no new long-term debt borrowing in fiscal year 2010.

Requests for Information

This financial report is intended to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information can be directed to the Finance Director of North Country Community Mental Health.

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
North Country Community Mental Health

We have audited the accompanying financial statements of the business-type activities, each major fund and the aggregate remaining fund information of ***North Country Community Mental Health*** (the "Authority") as of and for the year ended September 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of North Country Community Mental Health as of September 30, 2009 and the respective changes in financial position and cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages i - iii 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.

Dennis, Gartland & Niergarth

February 26, 2010

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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*

To the Board of Directors of
North Country Community Mental Health

We have audited the financial statements of the business-type activities, each major fund and the aggregate remaining fund information of ***North Country Community Mental Health***, (the "Authority"), as of and for the year ended September 30, 2009, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 26, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Dennis, Gartland & Niergarth

February 26, 2010

North Country Community Mental Health

STATEMENT OF NET ASSETS

September 30, 2009

	Enterprise Funds		Internal Service Funds		Total
	Provider	Affiliation	Risk Reserve	Eliminations	Business-Type Activities
ASSETS					
Current assets					
Cash and cash equivalents	$ 2,827,450	$ 288,470	$ -	$ -	$ 3,115,920
Restricted cash and cash equivalents	711,904	-	670,075	-	1,381,979
Investments	626,274	-	-	-	626,274
Accounts receivable	507,043	48,770	-	-	555,813
Due from State	4,391	371,600	-	-	375,991
Due from other governmental units	99,915	-	-	-	99,915
Due from affiliates	-	138,919	-	-	138,919
Due from other funds	330,214	48,882	14,165	(393,261)	-
Prepaid expenditures	317,760	504	-	-	318,264
Total current assets	5,424,951	897,145	684,240	(393,261)	6,613,075
Non-current assets					
Capital assets not being depreciated	182,500	-	-	-	182,500
Capital assets being depreciated, net	1,919,760	60,834	-	-	1,980,594
Total non-current assets	2,102,260	60,834	-	-	2,163,094
Total assets	$ 7,527,211	$ 957,979	$ 684,240	$ (393,261)	$ 8,776,169
LIABILITIES AND NET ASSETS					
LIABILITIES					
Current liabilities					
Accounts payable	$ 1,643,685	$ 460,054	$ -	$ -	$ 2,103,739
Accrued liabilities	300,014	27,318	-	-	327,332
Due to State	137,760	-	-	-	137,760
Due to affiliates	-	309,485	-	-	309,485
Due to other funds	251,731	132,781	8,749	(393,261)	-
Unearned revenue	319,389	-	-	-	319,389
Current portion of long-term debt	55,971	-	-	-	55,971
Total current liabilities	2,708,550	929,638	8,749	(393,261)	3,253,676
Non-current liabilities					
Long-term debt, net	1,615,372	-	-	-	1,615,372
Total liabilities	4,323,922	929,638	8,749	(393,261)	4,869,048
NET ASSETS					
Invested in capital assets, net of related debt	1,043,504	60,834	-	-	1,104,338
Restricted					
Code reserves	99,317	-	675,491	-	774,808
Unrestricted	2,060,468	(32,493)	-	-	2,027,975
Total net assets	3,203,289	28,341	675,491	-	3,907,121
Total liabilities and net assets	$ 7,527,211	$ 957,979	$ 684,240	$ (393,261)	$ 8,776,169

The accompanying notes are an integral part of these financial statements.

North Country Community Mental Health

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended September 30, 2009

	Enterprise Funds		Internal Service Funds		Total
	Provider	Affiliation	Risk Reserve	Eliminations	Business-Type Activities
Operating revenues					
Medicaid	$ 24,434,338	$ 58,949,261	$ -	$ (24,434,338)	$ 58,949,261
State General Fund revenues	5,048,633	113,869	-	-	5,162,502
Reimbursements	197,844	831,198	-	(431,036)	598,006
Earned revenue	743,423	113,763	-	-	857,186
Grant revenue	749,412	123,096	-	-	872,508
Other revenue	142,609	5,047	-	-	147,656
County contributions	657,265	-	-	-	657,265
Total operating revenues	31,973,524	60,136,234	-	(24,865,374)	67,244,384
Operating expenses					
Developmentally Disabled					
Program administration	295,966	-	-	-	295,966
Residential	11,741,396	-	-	-	11,741,396
Outpatient	926,411	-	-	-	926,411
Partial day	3,757,695	-	-	-	3,757,695
Case management	1,449,244	-	-	-	1,449,244
Psychiatric	130,737	-	-	-	130,737
Mentally Ill - Adult					
Program administration	290,839	-	-	-	290,839
State inpatient	284,540	-	-	-	284,540
Community inpatient	541,140	-	-	-	541,140
Residential	1,814,057	-	-	-	1,814,057
Outpatient	2,579,811	-	-	-	2,579,811
Partial day	946,580	-	-	-	946,580
Case management	961,406	-	-	-	961,406
Consumer operated	130,063	-	-	-	130,063
Assertive Community Treatment	879,113	-	-	-	879,113
Psychiatric	446,487	-	-	-	446,487
Mentally Ill - Child					
Program administration	40,374	-	-	-	40,374
State inpatient	93,089	-	-	-	93,089
Community inpatient	16,891	-	-	-	16,891
Residential	244,353	-	-	-	244,353
Outpatient	1,323,348	-	-	-	1,323,348
Case management	256,641	-	-	-	256,641
Psychiatric	147,440	-	-	-	147,440
Other services	266,915	-	-	-	266,915
Prevention Services	60,241	-	-	-	60,241
Board Administration	2,419,765	-	-	-	2,419,765
Managed Care Operations	-	61,704,006	-	(24,865,374)	36,838,632
Total operating expenses	32,044,542	61,704,006	-	(24,865,374)	68,883,174
Operating loss	(71,018)	(1,567,772)	-	-	(1,638,790)
Nonoperating revenue (expenses)					
Interest revenue	39,551	4,124	13,410	-	57,085
Interest expense	(33,072)	-	-	-	(33,072)
Loss on disposal of assets	(4,150)	-	-	-	(4,150)
Total nonoperating income	2,329	4,124	13,410	-	19,863
Net income (loss) before transfers	(68,689)	(1,563,648)	13,410	-	(1,618,927)
Transfers in	8,749	1,563,110	-	(1,571,859)	-
Transfers out	-	-	(1,571,859)	1,571,859	-
Change in net assets	(59,940)	(538)	(1,558,449)	-	(1,618,927)
Net assets, beginning of year	3,263,229	28,879	2,233,940	-	5,526,048
Net assets, end of year	$ 3,203,289	$ 28,341	$ 675,491	$ -	$ 3,907,121

The accompanying notes are an integral part of these financial statements.

North Country Community Mental Health

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended September 30, 2009

	Enterprise Funds		Internal Service Funds
	Provider	Affiliation	Risk Reserve
Cash Flows From Operating Activities			
Cash received from providing services	32,254,435	59,954,865	-
Cash payments to suppliers and affiliates	(20,802,403)	(60,159,688)	-
Cash payments for personnel services	(11,009,018)	(1,341,680)	-
Net cash used by operating activities	443,014	(1,546,503)	-
Cash Flows From Non-Capital Financing Activities			
Transfers in	204,647	1,524,688	-
Transfers out	-	-	(1,729,334)
Net cash provided (used) by non-capital financing activities	204,647	1,524,688	(1,729,334)
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(199,942)	(63,129)	-
Proceeds from sale of capital assets	6,252	36,099	-
Principal payments	(46,875)	-	-
Interest payments	(33,072)	-	-
Net cash used by capital and related financing activities	(273,637)	(27,030)	-
Cash Flows from Investing Activities			
Purchase of investments	(15,219)	-	-
Interest received	39,551	4,124	13,409
Net cash provided by investing activities	24,332	4,124	13,409
Net change in cash	398,356	(44,721)	(1,715,925)
Cash and cash equivalents, beginning of year	3,140,998	333,191	2,386,000
Cash and cash equivalents, end of year	$ 3,539,354	$ 288,470	$ 670,075
Cash and cash equivalents are classified as follows on the statement of net assets:			
Cash and cash equivalents	$ 2,827,450	$ 288,470	$ -
Restricted cash and cash equivalents	711,904	-	670,075
	$ 3,539,354	$ 288,470	$ 670,075

North Country Community Mental Health

STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS

For the Year Ended September 30, 2009

	Enterprise Funds		Internal Service Funds
	Provider	Affiliation	Risk Reserve
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	$ (71,018)	$ (1,567,772)	$ -
Adjustments to reconcile operating loss to net cash used by operating activities:			
Depreciation expense	251,346	30,081	-
Changes in assets and liabilities:			
Accounts receivable	109,845	(32,590)	-
Due from State	(4,391)	(133,245)	-
Due from other governmental units	(28,112)	-	-
Due from affiliates	10,692	(15,534)	-
Prepaids	17,201	(405)	-
Accounts payable	(67,762)	118,489	-
Accrued liabilities	32,336	2,308	-
Due to State	131,310	-	-
Due to affiliates	-	52,165	-
Unearned revenue	61,567	-	-
Net cash used by operating activities	$ 443,014	$ (1,546,503)	$ -

There were no significant non-cash investing or financing activities during the year.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - North Country Community Mental Health (the "Authority") is a multi-county governmental authority serving the Counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska and Otsego, located in northern Michigan. The Authority provides community services to consumers diagnosed with severe mental illnesses, developmental disabilities, and/or substance abuse conditions. Services provided by the authority include inpatient treatment, residential services, case management, outpatient treatment, employment and prevention services. The Authority operates under a 14-member Board of Directors.

In addition, the Authority operates as the Prepaid Inpatient Health Plan ("PIHP") for the Northern Affiliation, which includes North County Community Mental Health, AuSable Valley Community Mental Health, and Northeast Michigan Community Mental Health. The Authority maintains separate accountability over its operations as a provider from the operations of the affiliation.

Reporting Entity - These financial statements represent the financial condition and the results of operations of the Authority. The Authority is not a component of any other reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*. Based on this criteria, management has not identified any potential component units requiring consideration for inclusion in the Authority's financial statements.

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

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

Major Funds

The *Provider* enterprise fund is the main operating fund of the Authority. It is used to account for the proceeds of revenue sources legally restricted for mental health activities.

The *Affiliation* enterprise fund negotiates with the Michigan Department of Community Health for the Northern Affiliation's Medicaid contract. It is used to account for the receipt and distribution of State-contracted Medicaid revenues on behalf of the Northern Affiliation's members.

Non-Major Fund

The *Risk Reserve Internal Service Fund* (a proprietary fund type) is used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Community Health ("MDCH"). Pursuant to these contractual provisions, the Authority's risk management plan has been submitted to MDCH.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The government-wide and proprietary fund 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. The effect of interfund activity has been eliminated from the government-wide financial statements.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from MDCH and first and third party payers. Operating revenues of the internal service funds are comprised of charges to other funds for risk financing. Operating expenses include the cost of providing mental health and development disability services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents - The Authority's cash consists of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Restricted cash and cash equivalents represent amounts held in reserve accounts as authorized by the State of Michigan Mental Health Code.

Investments - The Authority's investments consist of a certificate of deposit with an initial maturity greater than three months.

Receivables - Receivables consist primarily of amounts due from individuals and private or governmental insurance programs and grant reimbursements under the terms of contracts with other agencies, governments and organizations for services rendered. Receivables from first and third party payers are presented net of an allowance for uncollectible accounts as estimated by management. The allowance was approximately $140,000 at September 30, 2009.

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

Capital Assets - Capital assets, which include buildings, improvements, equipment and vehicles, are capitalized and reported in the financial statements. Capital assets are defined as assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	8 - 25
Furniture and equipment	3 - 10
Vehicles	4

Compensated Absences - All full-time employees accrue vacation and sick benefits dependent on years of service with the Authority. Part-time regular employees are entitled to annual leave with pay in proportion to the number of hours they are hired to work per week. Employees are compensated for any unused vacation hours in excess of 240 at the end of each year. Upon termination, eligible employees are paid for all earned but unused vacation time and unused sick leave up to 320 hours at 25% of their pay rate.

Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Initial costs settlements under managed care contracts require substantial use of judgment and are subject to review by the Michigan Department of Community Health. Accordingly, the reported amounts of revenue, unearned revenue and due from/to the State could change.

NOTE B - DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to deposits and investments are as follows:

Cash and cash equivalents	$ 3,115,920
Restricted cash and cash equivalents	1,381,979
Investments	626,274
Total cash and cash equivalents	$ 5,124,173

Cash and investments are comprised of the following at year-end:

Bank deposits	$ 3,637,883
Municipal money market mutual fund	1,482,687
Petty cash	3,603
Total cash and cash equivalents	$ 5,124,173

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. State law does not require, and the Authority does not have a policy for deposit custodial credit risk. At September 30, 2009, $2,559,584 of the Authority's bank balance of $3,705,149 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. State law does not require and the Authority does not have a specific policy pertaining to investment custodial credit risk which is more restrictive than State law. As of year-end, none of the Authority's investment balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

At September 30, 2009, the Authority's investments consisted of a municipal money market mutual fund. The fund is unrated and carried at cost which approximates fair value due to the short-term nature of the funds.

Statutory Authority

The Authority is authorized by the State of Michigan to invest surplus funds in the following:

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

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 was as follows:

	September 30, 2008	Additions	Retirements	September 30, 2009
Vehicles	$ 685,052	$ 194,942	$ (147,975)	$ 732,019
Computer equipment	705,002	63,129	(28,377)	739,754
Furniture and fixtures	182,867	-	-	182,867
Residential homes and improvements	1,796,618	5,000	-	1,801,618
Total capital assets being depreciated	3,369,539	263,071	(176,352)	3,456,258
Accumulated depreciation	(1,360,190)	(281,427)	165,953	(1,475,664)
Capital assets being depreciated, net	2,009,349	(18,356)	(10,399)	1,980,594
Land	182,500	-	-	182,500
Construction-in-progress	36,100	-	(36,100)	-
Capital assets, net	$ 2,227,949	$ (18,356)	$ (46,499)	$ 2,163,094

NOTE D - LONG-TERM DEBT

Total long-term debt as of September 30, 2009 was as follows:

	September 29, 2008	Additions	Payments	September 30, 2009	Due Within One Year
Promissory note payable to bank with monthly payments of $1,725, including interest at 3.77%; secured by building; maturing June 2023.	$ 231,437	$ -	$ (12,062)	$ 219,375	$ 12,653
Promissory note payable to bank with monthly payments of $2,156, including interest at 3.77%; secured by building; maturing March 2023.	291,348	-	(13,712)	277,636	15,690
Construction promissory note payable to bank with monthly payments of $3,230, including interest at 2.746%; secured by property; maturing March 2028.	582,846	-	(21,101)	561,745	23,632
Total notes payable	1,105,631	-	(46,875)	1,058,756	51,975
Compensated absences	611,607	980	-	612,587	3,996
Total long-term debt	$ 1,717,238	$ 980	$ (46,875)	$ 1,671,343	$ 55,971

Interest paid was $33,072 for the year ended September 30, 2009.

The annual requirements to maturity on long-term debt (excluding compensated absences) at September 30, 2009 are as follows:

Years Ending September 30,	Principal	Interest	Total
2010	$ 51,975	$ 33,357	$ 85,332
2011	53,720	31,612	85,332
2012	55,525	29,807	85,332
2013	57,390	27,942	85,332
2014	59,320	26,012	85,332
2015-2019	327,981	98,679	426,660
2020-2024	323,637	41,173	364,810
2025-2029	129,208	6,457	135,665
	$ 1,058,756	$ 295,039	$ 1,353,795

NOTE E - OPERATING LEASES

The Authority is party to numerous operating leases, for which aggregate rental expense was $1,125,212.

The following is a schedule of future minimum lease payments required under the operating leases that have initial or remaining terms as of September 30, 2009:

Years ending September 30,	
2010	$ 683,243
2011	417,681
2012	302,592
2013	157,896
2014	44,634
	$ 1,606,046

NOTE F - PENSION PLANS

The Authority provides 401(a) money purchase plans for both union and non-union employees who have met the respective employment requirements. Under the plans, the Authority and its non-union employees contribute 12.2% and 6.2% of qualified compensation, respectively. Contributions made by the Authority are fully vested immediately. The Authority contributes an amount up to 8.17% of qualified compensation of union employees. As of January 1, 2008, contributions made by the Authority were fully vested. Total pension contributions for the year ended September 30, 2009 were $520,555.

Additionally, the Authority provides a Deferred Compensation Plan and Trust under Section 457 of the Internal Revenue Code, which covers all employees meeting certain employment requirements. Participants may contribute any amount as permitted through the Plan. No contributions are made by the Authority.

NOTE G - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member in the Michigan Municipal Risk Management Authority ("MMRMA") for risk of loss relating to its property and general liability (except auto liability and vehicle physical damage).

The MMRMA is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the MMRMA is to administer a risk management fund, which provides members with loss protection for general and property liability. The Authority has joined with numerous other governmental agencies in Michigan as a participant in MMRMA's "State Pool." Members of the State Pool do not have individual self-insured retention amounts other than a $500 deductible per occurrence of liability coverage and a $250 deductible per occurrence of property coverage.

State Pool members' limits of coverage (per occurrence) are $5 million for liability and about $350,000 for property. If a covered loss exceeds these limits or, if for any reason, MMRMA's resources are depleted, the payment of all unpaid losses is the sole obligation of the Authority.

The Authority carries commercial insurance for all other risks of loss including auto liability, vehicle physical damage, workers' compensation, liability and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

NOTE H - CONTINGENT LIABILITIES

Under the terms of various Federal and State grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2009.

NOTE I - RESTRICTED NET ASSETS

The Authority reports restricted net assets for certain reserve accounts established pursuant to the State of Michigan Mental Health Code. As of September 30, 2009, restricted net assets was comprised of the following:

	Building Fund	Compensated Absences	Risk Reserve	Total
Restricted cash and cash equivalents	$ 95,448	$ 616,456	$ 670,075	$ 1,381,979
Due from other funds	-	-	14,165	14,165
Less related payables	-	612,587	8,749	621,336
Restricted net assets	$ 95,448	$ 3,869	$ 675,491	$ 774,808

NOTE J - SUBSEQUENT EVENTS

The Authority has evaluated events and transactions subsequent to September 30, 2009 for potential recognition and disclosure through February 26, 2010, the date the financial statements were available to be issued.

The Authority received the contract reconciliation and cash settlements for fiscal year ("FY") 07/08 from the Department of Community Health ("DCH") on February 16, 2010. Settlements were received after audit fieldwork was completed, however, not before the final audit was issued. The Authority was requested to revise the expenditure Financial Status Report "(FSR") as well as Sections A, E and G of the Contract Reconciliation and Cash Settlement "(CRCS") for FY2008. The revisions were due to the improper classification of Medicaid expenditures that hit the risk corridor. The Authority reported these expenditures on line G(5) of the FSR. The expenditures should have been included in line K of the FSR. The Authority has submitted the corrected information to DCH to complete the settlement process. There was no change in amounts due to/or from DCH.