

**Mid-Michigan District Health Department
Stanton, Michigan**

FINANCIAL STATEMENTS

September 30, 2012

Mid-Michigan District Health Department

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INDEPENDENT AUDITOR'S REPORT

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Mid-Michigan District Health Department (the Department), a discretely presented component unit of Montcalm County, Michigan, as of and for the year ended September 30, 2012, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department'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 the 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 respective financial position of the governmental activities and the major fund of the Mid-Michigan District Health Department as of September 30, 2012, 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 March 11, 2013, on our consideration of the Department's internal control over financial reporting and on 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 11, 2013



Mid-Michigan District Health Department

Your Public Health Experts; Connecting with the Community and Exceeding Expectations

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Management's Discussion and Analysis For Fiscal Year Ended September 30, 2012

This section of the annual financial statements, titled Management's Discussion and Analysis, represents the administration's review of the Department's financial performance during the fiscal year ended September 30, 2012, and is a requirement of GASB 34. The Management's Discussion and Analysis is intended to be read in conjunction with the Department's financial statements.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: Government-wide financial statements and Fund Level financial statements.

Financial Highlights

- The assets of the Department exceeded its liabilities at September 30, 2012, by \$1,744,412 at the government-wide level. Of this amount, \$1,362,061 (unrestricted net assets) may be used to meet the Department's ongoing obligations.
- The Department's total net assets increased \$664,063 as a result of this year's operations.
- As of September 30, 2012, the Department's governmental fund reported an ending fund balance of \$1,592,644, an increase of \$214,469.
- As of September 30, 2012, the unassigned fund balance was \$224,522.

Overview of the Financial Statements

The Mid-Michigan District Health Department'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 provide information about the activities of the entire Department. They present an overall view of the Department's finances, reporting the assets and liabilities on fiscal year ending September 30, 2012.

The statement of net assets presents information on all of the Mid-Michigan District Health Department'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 Department is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during fiscal year 2011/12. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

All of the Mid-Michigan District Health Department's offices are supported by intergovernmental revenues, governmental grants, donations, fees and charges for services, interest, local, and contributions. The governmental activities of the Department are all considered health and sanitation programs. The Department does not operate any programs that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements include only financial information related to the Mid-Michigan District Health Department.

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 Mid-Michigan District Health Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Department operates with one fund, which is considered a governmental fund.

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 is narrower than 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 financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Mid-Michigan District Health Department adopts an annual appropriated budget for its Health Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

The basic financial statements can be found on pages 1-6 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 7-20 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgeted revenues and expenditures on page 21. Other supplementary information concerning federal awards can be found on pages 22-30 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Mid-Michigan District Health Department, assets exceeded liabilities by \$1,744,413. A comparative analysis of data with the previous fiscal year is as follows:

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 2,525,916	\$ 2,202,975
Capital assets	<u>382,351</u>	<u>462,772</u>
Total assets	2,908,267	2,665,747
Current liabilities	920,347	915,132
Noncurrent liabilities	<u>243,508</u>	<u>670,266</u>
Total liabilities	<u>1,163,855</u>	<u>1,585,398</u>
Net assets		
Invested in capital assets	382,351	462,772
Unrestricted	<u>1,362,061</u>	<u>617,577</u>
Total net assets	<u>\$ 1,744,412</u>	<u>\$ 1,080,349</u>

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) increased by \$744,484. This represents an increase of approximately 121 percent. Net assets invested in capital assets, net of related debt decreased by \$80,421. This represents a decrease of approximately 17.4 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,362,061, or approximately 26.0 percent of annual expenses. This is within our desired range.

The following table shows the changes of net assets for the years ended September 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Program revenues		
Charges for services	\$ 1,286,102	\$ 1,111,646
Operating grants and contributions	3,279,918	3,504,485
General revenue		
County appropriations	1,329,314	1,351,449
Cigarette tax	8,250	19,614
Interest	<u>6,081</u>	<u>7,588</u>
Total revenues	5,909,665	5,994,782
Program expenses	<u>5,245,602</u>	<u>6,265,678</u>
Change in net assets	<u>\$ 664,063</u>	<u>\$ (270,896)</u>

Total expenses decreased approximately 16.3 percent over the previous fiscal year, mainly due to a decrease in expenses related to the Public Health Emergency Response and the St. Johns Community Dental Center expansion and transition.

Total operating grants decreased \$224,567 mainly due to a decrease in grants received for the Public Health Emergency Response and the St. Johns Community Dental Center expansion and transition.

Financial Analysis of the Government's Fund

As noted earlier, the Mid-Michigan District Health Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund: The focus of the Mid-Michigan District Health Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Mid-Michigan District Health Department's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Mid-Michigan District Health Department's governmental fund reported a total ending fund balance of \$1,592,644; an increase of \$214,469 in comparison with the prior year. Certain constraints have been placed on fund balance at September 30, 2012. Those constraints consist of \$102,822 in prepaids being considered nonspendable and \$1,265,300 having been committed for specific purposes. The remaining amount of \$224,522 is considered unassigned fund balance. For more information on fund balance constraints see Note L.

As a measure of the governmental fund's liquidity, it may be useful to compare assignable (committed, assigned, and unassigned) fund balance, total fund balance, and unassigned fund balance to total fund expenditures. Assignable fund balance (\$1,489,822) and total fund balance (\$1,592,644) represent approximately 26.6 percent and 28.4 percent, respectively, of total fund expenditures. Unassigned fund balance represents approximately 4.0 percent of total expenditures.

Governmental Fund Budgetary Highlights

Over the course of the year, the Mid-Michigan District Health Department's Board of Health may amend the budget to take into account events that occur during the year. For the year ended September 30, 2012, budget amendments primarily increased and decreased intergovernmental and charges for services revenue and intergovernmental expense line items by amounts necessary to maintain consistency with actual activities for the fiscal year. In total, the Department's amended expenditure budget changed from \$5,945,776 to \$5,942,179, which represented only a very small decrease in the overall agency budget.

Capital Asset and Debt Administration

Capital Assets: The Mid-Michigan District Health Department's investment in capital assets as of September 30, 2012, amounts to \$382,351 (net of accumulated depreciation). For more information on capital assets, see Note D.

Long-term Obligations: The Mid-Michigan District Health Department has long-term obligations related to compensated absences (e.g., unused vacation and personal leave). The total obligation for compensated absences and related payroll taxes at September 30, 2012, was \$396,250. Of that total, \$272,075 is expected to be paid within one year. For more information on long-term debt see Note F.

Economic Factors and Next Year's Budget and Rates

For the fiscal year ending September 30, 2012, close monitoring of State budget actions will continue to be important related to lack of economic increases and/or further possible cuts in funding provided through State grant agreements and other State funding mechanisms such as Essential Local Public Health Services, Medicaid Cost and Rated Based Reimbursement funding supplements. It will also be important for the agency to continue to closely monitor environmental health permit applications activity to determine if there are any significant changes in activity and to adjust the budget accordingly if so. It will also be important to monitor the agency's Family Planning/Plan First! and Maternal and Infant Health Program client enrollment and State reimbursement systems, due to State level changes that could negatively affect the agency's revenues from these programs. Because all of these funding sources impact the Agency's operating budget significantly, changes in their levels of funding could seriously impact that types and levels of service that the Mid-Michigan District Health Department is able to provide.

Because the services of the Mid-Michigan District Health Department are provided based on need and not the ability to pay, and the financial condition of the agency is generally sound, the budget for the fiscal year ending September 30, 2012, included only normal economic increases in fees charged for services to the general public related to the corresponding increased operating costs to provide them and related to the levels of county funds appropriated.

Requests for Information

This financial report is designed to provide a general overview of the Mid-Michigan District Health Department's finances for all those with an interest in the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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BASIC FINANCIAL STATEMENTS

Mid-Michigan District Health Department

STATEMENT OF NET ASSETS

September 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 1,778,524
Accounts receivable	120,145
Current portion of contracts receivable	34,000
Due from other governmental units	
Federal/State	126,894
Local	6,611
Prepays	102,822
Inventories	<u>105,920</u>
Total current assets	2,274,916
Noncurrent assets	
Noncurrent portion of contracts receivable	251,000
Capital assets, net of accumulated depreciation	<u>382,351</u>
Total noncurrent assets	<u>633,351</u>
TOTAL ASSETS	2,908,267
LIABILITIES	
Current liabilities	
Accounts payable	47,058
Accrued wages	170,384
Accrued liabilities	104,924
Due to others	18,134
Unearned revenue	307,772
Current portion of compensated absences	<u>272,075</u>
Total current liabilities	920,347
Noncurrent liabilities	
Noncurrent portion of compensated absences	124,175
Net other post-employment benefit obligation	<u>119,333</u>
Total noncurrent liabilities	<u>243,508</u>
TOTAL LIABILITIES	<u>1,163,855</u>
NET ASSETS	
Invested in capital assets	382,351
Unrestricted	<u>1,362,061</u>
TOTAL NET ASSETS	<u><u>\$ 1,744,412</u></u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department

STATEMENT OF ACTIVITIES

Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Community health & education	\$ 3,005,828	\$ 671,100	\$ 2,388,969	\$ 54,241
Environmental health	883,194	614,915	573,749	305,470
Administration	1,356,580	87	317,200	(1,039,293)
Total	<u>\$ 5,245,602</u>	<u>\$ 1,286,102</u>	<u>\$ 3,279,918</u>	(679,582)
General revenues				
Interest				6,081
County appropriations				
Regular				1,058,395
Other				270,919
Cigarette tax				<u>8,250</u>
Total general revenues				<u>1,343,645</u>
Change in net assets				664,063
Net assets, beginning of the year				<u>1,080,349</u>
Net assets, end of the year				<u>\$ 1,744,412</u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department
BALANCE SHEET - GOVERNMENTAL FUND
September 30, 2012

	<u>General Operating Fund</u>
ASSETS	
Cash	\$ 1,778,524
Receivable	
Accounts	120,145
Contracts	285,000
Due from other governmental units	
Federal/State	126,894
Local	6,611
Prepays	102,822
Inventories	<u>105,920</u>
TOTAL ASSETS	<u><u>\$ 2,525,916</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 47,058
Accrued wages	170,384
Accrued liabilities	104,924
Due to others	18,134
Deferred revenue	<u>592,772</u>
TOTAL LIABILITIES	933,272
FUND BALANCE	
Nonspendable	102,822
Committed	1,265,300
Unassigned	<u>224,522</u>
TOTAL FUND BALANCE	<u>1,592,644</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,525,916</u></u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

September 30, 2012

Total fund balance - governmental fund **\$ 1,592,644**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 1,043,082	
Accumulated depreciation is	<u>(660,731)</u>	382,351

Certain accounts receivable are not susceptible to accrual in the governmental fund due to not having met the criteria to be considered available to finance current operations. Also, certain long-term assets are not available to pay for current period expenditures and are therefore deferred in the fund.

Deferred revenue		285,000
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund. Long-term liabilities at year-end consist of:

Compensated absences	(396,250)	
Net other post-employment benefit obligation	<u>(119,333)</u>	<u>(515,583)</u>

Net assets of governmental activities **\$ 1,744,412**

Mid-Michigan District Health Department

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND

Year Ended September 30, 2012

	General Operating Fund
REVENUES	
Licenses and permits	\$ 553,756
Intergovernmental	
Federal/State	2,693,550
Local	364,107
Charges for services	840,069
Interest	6,081
Other	<u>27,538</u>
TOTAL REVENUES	4,485,101
EXPENDITURES	
Current	
Salaries and wages	2,948,437
Fringe benefits	1,324,445
Supplies and materials	495,566
Contractual services	157,279
Communications	61,298
Travel and training	141,194
Insurance	38,783
Repairs and maintenance	10,998
Building and equipment lease and rentals	320,198
Printing and advertising	10,100
Postage	21,504
Other	<u>78,394</u>
TOTAL EXPENDITURES	<u>5,608,196</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,123,095)
OTHER FINANCING SOURCES	
County appropriations - regular	1,058,395
County appropriations - other	270,919
Cigarette tax	<u>8,250</u>
TOTAL OTHER FINANCING SOURCES	<u>1,337,564</u>
NET CHANGE IN FUND BALANCE	214,469
Fund balance, beginning of year	<u>1,378,175</u>
Fund balance, end of year	<u><u>\$ 1,592,644</u></u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department

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

Year Ended September 30, 2012

Net change in fund balance - governmental fund \$ 214,469

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(80,421)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.

Increase in certain components of deferred revenue	87,000
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Some items 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 fund. These activities consist of:

Decrease in compensated absences	\$ 19,453	
Decrease in net other post-employment benefit obligation	423,562	
		443,015

Change in net assets of governmental activities	\$ 664,063
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Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mid-Michigan District Health Department (the Department) is a joint venture between Montcalm, Gratiot, and Clinton Counties, and was established to provide public health services. The District Health Board has representation and provides services to Montcalm, Gratiot, and Clinton Counties. Each County provides annual appropriations and passes through the statutory amounts of cigarette tax funding to subsidize operations. The current funding formula approved by the District Health Board requires Montcalm, Gratiot, and Clinton Counties to provide approximately 36, 27, and 37 percent, respectively of the total County appropriations. In addition, the treasury function for the District Health Department rests with the Montcalm County Treasurer. For this reason, the District Health Department is considered a component unit of Montcalm County for financial reporting purposes.

The District Health Department's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Department are discussed below.

The primary revenues of the Mid-Michigan District Health Department are charges for services, Federal and State grants and County appropriations.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 4, these financial statements are exclusive presentations of the financial condition and results of operations of the Mid-Michigan District Health Department. The Department is considered a "joint venture" of Montcalm, Gratiot, and Clinton Counties.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Department as a whole.

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the Department and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and all County appropriations and shows how governmental functions are either self-financing or supported by the general revenues of the Department.

FUND FINANCIAL STATEMENTS

The Department uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Department's individual major fund.

September 30, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the Department is:

- a. General Operating Fund - This fund is used to account for all financial resources of the Department, which are restricted to expenditures for specified health related purposes.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the Department before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenses.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Department reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Department receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

If/when both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

5. Budgets and Budgetary Accounting

The annual budget of the Department is prepared by Department management and approved by the Board at the total expenditure level. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash

Cash consists of the Department's payroll and accounts payable checking accounts, imprest cash, and cash on deposit with the Montcalm County Treasurer.

7. Receivables and Unearned/Deferred Revenue

Receivables consist of amounts due from governmental units for various grant programs and accounts receivable for charges for services to clients and other organizations.

The Department has recognized the revenue related to charges for services at the time the services are performed and billed to the extent such amounts are estimated to be received. Contractual adjustments by third-party payers are treated as a reduction to revenues.

The Department has recorded unearned/deferred revenue at the government-wide and the fund level equaling the amount of vaccine inventory received from the State of Michigan that is on hand at year-end. The Department has also recorded deferred revenue at the fund level for amounts due to the Department but not collected within sixty days of year-end. Deferred revenue has also been recorded for various grant programs when cash has been received before the related expenditures have been made and the grant dollars are therefore unearned. These accounts are shown as "unearned revenue" in the government-wide financial statements.

The change in deferred revenue has caused there to be a difference in the Department's budgeted change in fund balance compared to the actual reflected in the financial statements. See Management's Discussion and Analysis for further clarification.

8. Inventories

Inventories are stated at cost on a first in/first out basis. Donated vaccine inventory consists of vaccines received from the State of Michigan and is stated at fair value as of the date of donation. Vaccine inventory received from the State of Michigan that is on hand at year-end has been reported as deferred revenue. They are reported as expenditures at the time individual inventory items are used.

9. Prepays

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenditures/expenses.

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

10. Capital Assets

Capital assets include equipment and leasehold improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more, with estimated useful lives of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Leasehold Improvements	10 years
Equipment	5 - 20 years

11. Long-Term Obligations

Long-term debt and related interest expense is recognized as a liability in the government-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

12. Compensated Absences

The Department employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount has been recorded as a current and noncurrent liability in the government-wide financial statements.

13. Comparative Data

Comparative data for the prior year have not been presented in the accompanying financial statements since its inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Department is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations 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 State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE B: CASH - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Deposits

The Department's bank deposits at September 30, 2012, are composed of the following:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	<u>\$ 771</u>	<u>\$ 24,023</u>

Bank deposits in the checking accounts noted above of the Department are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Department. As of September 30, 2012, the Department's checking accounts noted above were fully insured by the FDIC.

The cash caption on the balance sheet includes \$2,101 in imprest cash and \$1,775,652 in cash that is on deposit with the Montcalm County Treasurer. The cash on deposit with the Montcalm County Treasurer is part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these amounts cannot be determined.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2012, the Department does not have any investments that would be subject to rating.

Interest Rate Risk

The Department will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio in a manner to attain a market rate of return throughout the budgetary and economic cycles while preserving and protecting capital.

Concentration of Credit Risk

The Department will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Department's investment in a single issuer, by diversifying the investment portfolio to prevent over concentration of assets in a specific maturity, individual financial institution, or specific class of securities.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE C: LONG-TERM CONTRACTS RECEIVABLE

The Department entered into agreements on June 1, 2009 and February 1, 2011, with Michigan Community Dental Clinics, Inc. (MCDC) to lease office space and equipment and turnover the Department's dental services to MCDC. In return, MCDC is paying the Department a sum of money (\$270,000 and \$115,000) over a period of ten (10) years. The amounts attributable to these long-term contracts receivable have been recorded at the fund level as contracts receivable and deferred revenue. The following is a summary of future annual revenue from MCDC for the agreements signed with the Department on June 1, 2009 and February 1, 2011, effective for ten (10) years:

<u>Year Ended September 30,</u>	<u>Office Lease</u>	<u>Equipment Lease</u>
2013	\$ 22,000	\$ 12,000
2014	24,000	12,000
2015	24,000	12,000
2016	24,000	12,000
2017	24,000	12,000
2018-2022	<u>54,000</u>	<u>53,000</u>
	<u>\$ 172,000</u>	<u>\$ 113,000</u>

NOTE D: CAPITAL ASSETS

The following provides a summary of the changes in capital assets for the year ended September 30, 2012:

	<u>Balance Oct. 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept. 30, 2012</u>
Governmental activities				
Equipment	\$ 856,367	\$ -	\$ (2,050)	\$ 854,317
Leasehold improvements	<u>188,765</u>	<u>-</u>	<u>-</u>	<u>188,765</u>
Subtotal	1,045,132	-0-	(2,050)	1,043,082
Less accumulated depreciation for:				
Equipment	(535,168)	(61,545)	2,050	(594,663)
Leasehold improvements	<u>(47,192)</u>	<u>(18,876)</u>	<u>-</u>	<u>(66,068)</u>
Subtotal	<u>(582,360)</u>	<u>(80,421)</u>	<u>2,050</u>	<u>(660,731)</u>
Capital assets, net	<u>\$ 462,772</u>	<u>\$ (80,421)</u>	<u>\$ -0-</u>	<u>\$ 382,351</u>

Depreciation expense has been allocated to governmental functions as follows: Community Health and Education \$61,614, Environmental Health \$1,423, and Administration \$17,384.

NOTE E: LEASE AGREEMENTS

On December 1, 2008, the Department entered into a lease agreement with Montcalm Area Intermediate School District to lease office space located at the Montcalm Area Career Center Facility. The effective date of the lease was December 1, 2008 until November 30, 2018, and the lease agreement calls for annual rental payments of \$1.00.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE E: LEASE AGREEMENTS - CONTINUED

On June 2, 2011, the Department entered into a lease agreement with Clinton County to lease office space located in St. Johns, Michigan. The effective date of the new lease is October 1, 2011 until September 30, 2021, and calls for annual rental payments of \$20,100. Michigan Community Dental Clinics, Inc. (MCDC) is a sub-lessee of the office space and pays Clinton County directly each month.

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Department for the year ended September 30, 2012:

	Balance Oct. 1, 2011	Additions	Deletions	Balance Sept. 30, 2012	Amounts Due Within One Year
Compensated absences	\$ 415,703	\$ 265,979	\$ (285,432)	\$ 396,250	\$ 272,075

Compensated Absences

Employees of the Mid-Michigan District Health Department are granted vacation and sick leave amounts in varying amounts based on length of service. Upon termination of employment, employees are paid for these compensated absences based on past practice and employment agreements.

Compensated absences are a liability to the Department which are split between current and noncurrent liabilities within the Government-wide financial statements based on an estimate of when they will be due and payable. Payments to employees for compensated absences are recorded as expenditures when they are used and payments are actually made to the employees at the fund level.

At September 30, 2012, the Department's total liability for compensated absences and related payroll taxes amounted to \$396,250, of which \$272,075 has been classified as a current liability.

NOTE G: RETIREMENT PLAN

Plan Description

The Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Department. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Board of Public Health. The plan requires a contribution from the employees ranging from 0% to 2.75% of wages depending on the employee group covered. The Department is required to contribute the remaining amounts necessary to fund the system.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE G: RETIREMENT PLAN - CONTINUED

Annual Pension Cost

For the year ended September 30, 2012, the Department's annual pension cost of \$195,952 for the plan was equal to the Department's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2010, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.0% investment rate of return (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will increase 2.5% per year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll contributions over thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Actuarial value of assets	\$ 6,601,609	\$ 6,936,701	\$ 7,231,964
Actuarial accrued liability (AAL) (entry age)	7,142,541	7,581,520	8,105,589
Unfunded AAL	540,932	644,819	873,625
Funded ratio	92%	91%	89%
Covered payroll	\$ 2,886,726	\$ 2,957,858	\$ 2,837,153
UAAL as a percentage of covered payroll	19%	22%	31%

	Year Ended September 30,		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annual pension cost	\$ 198,910	\$ 218,839	\$ 195,952
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

This trend information was obtained from the most recently issued actuarial reports.

NOTE H: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The Department provides other post-employment benefits (OPEB) to all applicable employees, in accordance with the employment agreements and/or personnel policies, hospitalization and medical coverage on a complimentary basis for non-union employees who retire at the minimum age of 60 and have at least 20 or more years of continuous service with the Department. The following are the Governmental Accounting Standards Board (GASB) Statement No. 45 required disclosures and these disclosures have been implemented prospectively by the Department.

- Only employees meeting the above stated requirements, a non-union member that is a minimum age of 60 with 20 or more years of continuous service are eligible. Dependents are not eligible for any employer paid insurance and if coverage is elected for dependents, it will be 100% employee paid.
- Employees who do not meet the above stated criteria will not receive employer paid benefits upon retirement.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

The plan does not issue a separate stand-alone financial statement.

Funding Policy

The Mid-Michigan District Health Department's annual other post employment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer* (ARC). The Health Department has elected to have an actuary calculate the ARC and related amounts. The Health Department has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The only current contributions being made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the Department.

Funding Progress

For the year ended September 30, 2012, the Department has determined an estimated cost of providing retiree post-employment benefits through an actuarial valuation. The valuation computes an ARC which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed 30 years.

The Department's computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	\$ 52,033
Interest on net OPEB obligation	21,716
ARC adjustment	<u>(497,311)</u>
Annual OPEB cost	(423,562)
Amounts contributed	
Payments of current premiums (Gross of employee reimbursement)	<u>-</u>
(Decrease) in net OPEB obligation	(423,562)
Net OPEB obligation - Beginning of year	<u>542,895</u>
Net OPEB obligation - End of year	<u><u>\$ 119,333</u></u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the fiscal years ended September 30, were as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annual OPEB cost	\$ 188,759	\$ 200,876	\$ (423,562)
Percentage contributed	4%	0%	0%
Net OPEB obligation	\$ 342,019	\$ 542,895	\$ 119,333

The ARC adjustment noted above includes a \$452,512 reduction in the OPEB obligation due to a plan change that dropped Medicare eligible support.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

The current funding progress of the plan as of September 30, the most recent valuation date, is as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	1,082,988	1,082,988	308,900
Unfunded AAL (UAAL)	1,082,988	1,082,988	308,900
Funded ratio	0%	0%	0%
Annual covered payroll	\$ 744,592	\$ 771,494	\$ 731,319
Ratio of UAAL to covered payroll	145%	140%	42%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the Department are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are made about the future. The actuarial cost method used was the projected unit credit (level dollar) method. The amortization method was the level dollar method and the most recent actuarial valuation period is closed.

Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the Department and the benefits are received by the eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Department and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the Department and plan members in the future.

In the actuarial valuation, the projected unit age actuarial cost method was used. The actuarial assumptions include a 4 percent yearly rate of investment return, compounded annually net after investment expense, which is the expected long-term investment returns on plan assets and a 4 percent discount rate. There were also merit and seniority salary rate increase assumptions taken into consideration and those are detailed in the actuarial study and are based on age. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study the assumed rate ranges from 10 percent graded down to 5 percent over 5 years for health care related costs. The UAAL is being amortized as a level dollar over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

NOTE I: DEFERRED COMPENSATION

The Mid-Michigan District Health Department offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to substantially all Department employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plans are administered through MetLife Resources, Royal Alliance, and Primary Shareholders Services, respectively.

Legislative changes made to 457 plans mandated that no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, annuity contract for benefit of participants and their beneficiaries.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE I: DEFERRED COMPENSATION - CONTINUED

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiary, and are not subject to the claims of public employees creditors nor can they be used by the public employee for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. As of September 30, 1999, the Department had implemented changes to be in compliance with these requirements. As a result, the plan assets are not reported in the audited financial statements by the Department because the legislation eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

The Mid-Michigan District Health Department also offers its employees a tax sheltered annuity plan created in accordance with Internal Revenue Code Section 403(b). The plan, available to substantially all Department employees, permits them to make pre-tax contributions into various investment options. The Department has obtained non-profit exemption status under Internal Revenue Code Section 501(c)(3) thus allowing them to create the 403(b) plan. The plan is administered through MetLife Resources.

NOTE J: RISK MANAGEMENT

The Department carries commercial insurance for the risk of loss due to workers' compensation and healthcare professional liability claims.

The Department is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately.

The Authority administers a risk management fund providing Mid-Michigan District Health Department with loss protection for general liability, vehicle physical damage, property damage and losses due to crime.

The administration of the Authority is directed by an eight (8) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Mid-Michigan District Health Department with loss protection for general and auto liability, and property damage. Under most circumstances, the Department's maximum loss per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Maximum Retention Per Occurrence</u>
General liability	\$ 5,000,000
Property and crime coverage	5,000,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE K: NONCANCELABLE OPERATING LEASE OBLIGATIONS

The Mid-Michigan District Health Department has entered into a twenty-year, noncancelable long-term lease with NHF Sub Montcalm, a nonprofit organization, for the Montcalm branch office space. Rent expense for the year ended September 30, 2012, amounted to \$80,073.

Future minimum payments are as follows:

2013	\$	80,073
2014		80,073
2015		80,073
2016		80,073
2017		80,073
2018-2019		<u>93,417</u>
TOTAL PAYMENTS	\$	<u>493,782</u>

NOTE L: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishing fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the Department's highest level of decision-making authority is the Board of Public Health. The formal action that is required to be taken to establish a fund balance commitment is a board resolution.

For assigned fund balance, the Board of Public Health is authorized to assign amounts to a specific purpose. Currently, assigned fund balance is determined through the budget and any residual amounts of fund balance in governmental funds other than the General Operating Fund.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE L: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS - CONTINUED

For the classification of fund balances, the Department considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the Department considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Fund Balance		
Nonspendable		
Prepays	\$	102,822
Committed		
Vacation and sick leave		396,250
Equipment		135,698
Self-insurance bonds		13,950
Retirement		308,830
Unemployment		55,000
Training		35,000
BRFS (Behavioral Risk Factor Survey)		11,522
Facility development		109,580
Donated leave		2,236
Health insurance		160,000
Potential claims		12,234
Accreditation		25,000
Unassigned		<u>224,522</u>
TOTAL FUND BALANCE	\$	<u><u>1,592,644</u></u>

NOTE M: UPCOMING PRONOUNCEMENTS

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The Department is currently evaluating the impact this standard will have on the financial statements when adopted during the Department's 2012-2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The Department is currently evaluating the impact this standard will have on the financial statements when adopted during the Department's 2012-2013 fiscal year.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2012

NOTE M: UPCOMING PRONOUNCEMENTS - CONTINUED

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Department's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the statement of net assets at the government-wide level and also the balance sheet at the fund level.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Department is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the Department's 2014-2015 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Mid-Michigan District Health Department

BUDGETARY COMPARISON SCHEDULE - GENERAL OPERATING FUND

Year Ended September 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses and permits	\$ 233,193	\$ 250,000	\$ 553,756	\$ 303,756
Intergovernmental				
Federal/State	2,853,474	2,724,940	2,693,550	(31,390)
Local	460,260	420,000	364,107	(55,893)
Charges for services	1,006,776	1,155,621	840,069	(315,552)
Interest	9,000	6,600	6,081	(519)
Other	7,200	24,888	27,538	2,650
TOTAL REVENUES	4,569,903	4,582,049	4,485,101	(96,948)
EXPENDITURES				
Current				
Salaries and wages	3,037,740	3,016,695	2,948,437	68,258
Fringe benefits	1,267,255	1,425,200	1,324,445	100,755
Supplies and materials	740,900	638,400	495,566	142,834
Contractual services	186,500	160,000	157,279	2,721
Communications	69,230	65,000	61,298	3,702
Travel and training	179,200	153,000	141,194	11,806
Insurance	50,000	40,000	38,783	1,217
Repairs and maintenance	44,400	45,000	10,998	34,002
Building and equipment lease and rentals	285,601	318,884	320,198	(1,314)
Printing and advertising	19,050	16,000	10,100	5,900
Postage	26,000	22,000	21,504	496
Other	39,900	42,000	78,394	(36,394)
TOTAL EXPENDITURES	5,945,776	5,942,179	5,608,196	333,983
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,375,873)	(1,360,130)	(1,123,095)	237,035
OTHER FINANCING SOURCES				
County appropriations - regular	1,100,473	1,058,395	1,058,395	-0-
County appropriations - other	260,500	293,484	270,919	(22,565)
Cigarette tax	14,900	8,251	8,250	(1)
TOTAL OTHER FINANCING SOURCES	1,375,873	1,360,130	1,337,564	(22,566)
NET CHANGE IN FUND BALANCE	-0-	-0-	214,469	214,469
Fund balance, beginning of year	1,378,175	1,378,175	1,378,175	-0-
Fund balance, end of year	<u>\$ 1,378,175</u>	<u>\$ 1,378,175</u>	<u>\$ 1,592,644</u>	<u>\$ 214,469</u>

OTHER SUPPLEMENTARY INFORMATION

Mid-Michigan District Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed-through Michigan Department of Community Health Special Nutrition Program for Women, Infants, and Children FY 11-12 Breastfeeding and Resident Services	10.557	N/A	\$ 815,014
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed-through Michigan Department of Environmental Quality State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs FY 11-12	66.471	N/A	2,610
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
(Direct Program)			
Health Resources and Services Administration FY 11-12 Rural Health Network Development Planning Grant	93.912	P10RH21572	63,748
Passed-through Michigan Department of Community Health			
Public Health Emergency Preparedness ^(a) FY 11-12 Bioterrorism - Supplemental	93.069	N/A	122,775
FY 11-12 Bioterrorism - Hosp Preparedness+		N/A	<u>35,941</u>
			158,716
TB Control FY 11-12 TB Control Programs	93.116	N/A	100
Family Planning Services FY 11-12	93.217	N/A	108,051
Immunization Grants ^(a) FY 11-12 IAP	93.268	N/A	76,560
FY 11-12 Immunization Fixed Fees ^(b)		N/A	9,750
FY 11-12 Vaccine Supply		N/A	<u>267,964</u>
			354,274

Mid-Michigan District Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED			
Passed-through Michigan Department of Community Health - continued			
Medical Assistance Program	93.778		
FY 11-12 CSHCS Medicaid Outreach		N/A	\$ 33,418
FY 11-12 Medicaid Outreach		N/A	154,302
FY 11-12 MAP - Medicaid Outreach ^(b)		N/A	<u>5,360</u>
			193,080
 Maternal and Child Health Services Block Grant to the States	 93.994		
FY 11-12 Family Planning Services		N/A	88,004
FY 11-12 MAP - Outreach and Advocacy		N/A	46,164
FY 11-12 MAP - Care Coordination ^{(b)(d)}		N/A	13,213
FY 11-12 SIDS ^(b)		N/A	<u>340</u>
			<u>147,721</u>
 TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			 <u>1,025,690</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u><u>\$ 1,843,314</u></u>

(c)

Mid-Michigan District Health Department

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2012

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the Federal grant activity of the Mid-Michigan District Health Department and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Denotes program tested as "major program".
- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) The following reconciles the federal revenues reported in the September 30, 2012, fund financial statements to the expenditures of the Department administered federal programs reported on the Schedule of Expenditures of Federal Awards:

Federal/State Revenue (per financial statements)	\$ 2,693,550
<u>Less:</u> Difference between vaccines administered (revenue per financial statements) and vaccines received (expenditures per SEFA as instructed by grantor agency)	(7,599)
<u>Less:</u> Portions of grant funding considered "State" funding	<u>(842,637)</u>
	<u><u>\$ 1,843,314</u></u>

- (d) The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the 35% of total contract expenditures per MDCH.

Principals

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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*

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Mid-Michigan District Health Department (the Department), a component unit of Montcalm County, Michigan as of and for the year ended September 30, 2012, and have issued our report thereon dated March 11, 2013. 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

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department'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 Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

A *deficiency in internal controls* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 Mid-Michigan District Health Department'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 and the Board of Public Health of the Mid-Michigan District Health Department, others within the Department, the federal awarding agencies, and the pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 11, 2013

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Public Health
Mid-Michigan District Health Department
Stanton, Michigan

Compliance

We have audited the Mid-Michigan District Health Department's (the Department) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended September 30, 2012. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Mid-Michigan District Health Department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management and the Board of Public Health of the Mid-Michigan District Health Department, others within the Department, the pass-through entities, and the federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 11, 2013

Mid-Michigan District Health Department

SCHEDULE OF FINDINGS

Year Ended September 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.268	Immunization
93.069	Public Health Emergency Preparedness

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings

None noted.

Mid-Michigan District Health Department

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended September 30, 2012

FINDINGS/NONCOMPLIANCE

Control Deficiencies Related to Internal Controls Over the Financial Statements

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to the Financial Statements

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133

No prior audit findings noted.