

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

FINANCIAL STATEMENTS

September 30, 2013

Mid-Michigan District Health Department

TABLE OF CONTENTS

September 30, 2013

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-vii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Governmental Fund	
Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	6
Notes to Financial Statements	7-20
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Operating Fund	21
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
INDEPENDENT AUDITOR'S 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	24-25
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	26-27
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	28
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	29

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Mid-Michigan District Health Department (the Department), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note M, the Department implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously reported as Assets and Liabilities*, during the year. As a result of this implementation, the format and reporting of the financial statements has changed to reflect the required components of GASB Statements No. 63 and GASB Statement No. 65, as applicable. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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.

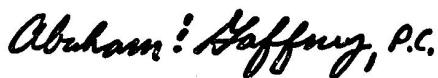
Other Information

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 28, 2014



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, 2013

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, 2013, 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, 2013, by \$1,633,660 at the government-wide level. Of this amount, \$1,317,553 (unrestricted net position) may be used to meet the Department's ongoing obligations.
- The Department's total net position decreased \$110,752 as a result of this year's operations.
- As of September 30, 2013, the Department's governmental fund reported an ending fund balance of \$1,762,524, an increase of \$169,880.
- As of September 30, 2013, the unassigned fund balance was \$183,818.

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, 2013.

The statement of net position 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 position changed during fiscal year 2012/13. 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 22-29 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 \$1,633,660. A comparative analysis of data with the previous fiscal year is as follows:

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 2,611,856	\$ 2,525,916
Capital assets	<u>316,107</u>	<u>382,351</u>
Total assets	2,927,963	2,908,267
Current liabilities	1,089,487	920,347
Noncurrent liabilities	<u>204,816</u>	<u>243,508</u>
Total liabilities	<u>1,294,303</u>	<u>1,163,855</u>
Net position		
Investment in capital assets	316,107	382,351
Unrestricted	<u>1,317,553</u>	<u>1,362,061</u>
Total net position	<u>\$ 1,633,660</u>	<u>\$ 1,744,412</u>

Unrestricted net position (the part of net position that can be used to finance day-to-day operations) decreased by \$44,508. This represents a decrease of approximately 3 percent. Net position invested in capital assets decreased by \$66,244. This represents a decrease of approximately 17 percent. The current level of unrestricted net position for the governmental activities stands at \$1,317,553, or approximately 23 percent of annual expenses. This is within the Department's desired range.

The following table shows the changes of net position for the years ended September 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Program revenues		
Charges for services	\$ 1,335,642	\$ 1,286,102
Operating grants and contributions	2,932,912	3,279,918
General revenue		
County appropriations	1,362,669	1,329,314
Cigarette tax	6,766	8,250
Interest	<u>1,776</u>	<u>6,081</u>
Total revenues	5,639,765	5,909,665
Program expenses	<u>5,750,517</u>	<u>5,245,602</u>
Change in net position	<u>\$ (110,752)</u>	<u>\$ 664,063</u>

Total expenses increased approximately 10 percent over the previous fiscal year, mainly due to an increase in expense related to compensated absences and other post-employment benefit obligations.

Total operating grants decreased \$347,006 mainly due to a decrease in the Dental Medicaid Full Cost Reimbursement received in 2012. The agency no longer operates the dental clinics, therefore, no longer receives this reimbursement.

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 \$1,762,524; an increase of \$169,880 in comparison with the prior year. Certain constraints have been placed on fund balance at September 30, 2013. Those constraints consist of \$102,160 in prepaids being considered nonspendable and \$1,476,546 having been committed for specific purposes. The remaining amount of \$183,818 is considered unassigned fund balance. See Note L for more information on fund balance constraints.

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 (\$1,660,364) and total fund balance (\$1,762,524) represent approximately 30 percent and 32 percent, respectively, of total fund expenditures. Unassigned fund balance represents approximately 3 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, 2013, budget amendments primarily increased and decreased licenses and permits, intergovernmental, and charges for services revenue and certain expenditure 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 \$5,745,648 to \$5,669,172, which represented only a relatively 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, 2013, amounts to \$316,107 (net of accumulated depreciation). See Note D for more information on capital assets.

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, 2013, was \$522,410. Of that total, \$489,155 is expected to be paid within one year. See Note F for more information on long-term debt.

Economic Factors and Next Year's Budget and Rates

For the fiscal year ending September 30, 2013, 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. The agency continues to closely monitor environmental health permit applications activity to determine if there are any significant changes in activity. The agency is focusing efforts on increasing reimbursement by billing commercial insurances for services provided in Community Health and Education Division. The Agency's operating budget could be significantly impacted by changes in State funding, permit activity and billing reimbursement, therefore, will be monitored closely.

The Mid-Michigan District Health Department's budget for the next fiscal year ending September 30, 2013 included only 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 POSITION

September 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 3,651
Cash on deposit with fiscal agent	1,741,464
Accounts receivable	171,808
Current portion of contracts receivable	36,000
Due from other governmental units	
Federal/State	159,703
Local	107,495
Prepays	102,160
Inventories	<u>76,575</u>
Total current assets	2,398,856
Noncurrent assets	
Noncurrent portion of contracts receivable	213,000
Capital assets, net of accumulated depreciation	<u>316,107</u>
Total noncurrent assets	<u>529,107</u>
TOTAL ASSETS	2,927,963
LIABILITIES	
Current liabilities	
Accounts payable	71,501
Accrued wages	222,484
Accrued liabilities	57,908
Due to others	18,347
Unearned revenue	230,092
Current portion of compensated absences	<u>489,155</u>
Total current liabilities	1,089,487
Noncurrent liabilities	
Noncurrent portion of compensated absences	33,255
Net other post-employment benefit obligation	<u>171,561</u>
Total noncurrent liabilities	<u>204,816</u>
TOTAL LIABILITIES	1,294,303
NET POSITION	
Investment in capital assets	316,107
Unrestricted	<u>1,317,553</u>
TOTAL NET POSITION	\$ 1,633,660

See accompanying notes to financial statements.

Mid-Michigan District Health Department

STATEMENT OF ACTIVITIES

Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Health and welfare				
Community health and education	\$ 3,315,940	\$ 718,889	\$ 2,095,605	\$ (501,446)
Environmental health	976,281	616,721	557,027	197,467
Administration	<u>1,458,296</u>	<u>32</u>	<u>280,280</u>	<u>(1,177,984)</u>
Total	<u>\$ 5,750,517</u>	<u>\$ 1,335,642</u>	<u>\$ 2,932,912</u>	<u>(1,481,963)</u>
General revenues				
Interest				1,776
County appropriations				
Regular				1,078,396
Other				284,273
Cigarette tax				<u>6,766</u>
Total general revenues				<u>1,371,211</u>
Change in net position				(110,752)
Net position, beginning of the year				<u>1,744,412</u>
Net position, end of the year				<u>\$ 1,633,660</u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department

Governmental Fund

BALANCE SHEET

September 30, 2013

	General Operating Fund
ASSETS	
Cash	\$ 3,651
Cash on deposit with fiscal agent	1,741,464
Receivable	
Accounts	171,808
Contracts	249,000
Due from other governmental units	
Federal/State	159,703
Local	107,495
Prepays	102,160
Inventories	<u>76,575</u>
TOTAL ASSETS	<u>\$ 2,611,856</u>
LIABILITIES	
Accounts payable	\$ 71,501
Accrued wages	222,484
Accrued liabilities	57,908
Due to others	18,347
Unearned revenue	<u>230,092</u>
TOTAL LIABILITIES	600,332
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	249,000
FUND BALANCE	
Nonspendable	102,160
Committed	1,476,546
Unassigned	<u>183,818</u>
TOTAL FUND BALANCE	<u>1,762,524</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 2,611,856</u>

See accompanying notes to financial statements.

Mid-Michigan District Health Department

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

September 30, 2013

Total fund balance - governmental fund \$ 1,762,524

Amounts reported for the governmental activities in the statement of net position 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	\$ 1,042,517
Accumulated depreciation is	<u>(726,410)</u>
Capital assets, net	316,107

Long-term receivables are not available to pay for current period expenditures and therefore, are considered unavailable in the funds.

Unavailable revenue	249,000
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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	(522,410)
Net other post-employment benefit obligation	<u>(171,561)</u>
	<u>(693,971)</u>

Net position of governmental activities \$ 1,633,660

Mid-Michigan District Health Department

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE

Year Ended September 30, 2013

	General Operating Fund
REVENUES	
Licenses and permits	\$ 553,871
Intergovernmental	
Federal/State	2,562,091
Local	355,318
Charges for services	790,610
Interest	1,776
Other	<u>42,664</u>
TOTAL REVENUES	4,306,330
EXPENDITURES	
Current	
Salaries and wages	3,070,696
Fringe benefits	1,146,863
Supplies and materials	431,158
Contractual services	123,936
Communications	63,343
Travel and training	147,231
Insurance	35,165
Repairs and maintenance	5,427
Building and equipment lease and rentals	353,775
Printing and advertising	4,670
Postage	21,460
Other	15,512
Capital outlay	<u>86,649</u>
TOTAL EXPENDITURES	<u>5,505,885</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,199,555)
OTHER FINANCING SOURCES	
County appropriations - regular	1,078,396
County appropriations - other	284,273
Cigarette tax	<u>6,766</u>
TOTAL OTHER FINANCING SOURCES	<u>1,369,435</u>
NET CHANGE IN FUND BALANCE	169,880
Fund balance, beginning of year	<u>1,592,644</u>
Fund balance, end of year	<u>\$ 1,762,524</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, 2013

Net change in fund balance - governmental fund	\$ 169,880
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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:

Capital outlay	\$ 12,710
Depreciation expense	<u>(78,954)</u>
Excess of depreciation expense over capital outlay	(66,244)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund.

(Decrease) in unavailable revenue	(36,000)
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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:

(Increase) in compensated absences	(126,160)
(Increase) in net other post-employment benefit obligation	<u>(52,228)</u>
	<u>(178,388)</u>

Change in net position of governmental activities	<u>\$ (110,752)</u>
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Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

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 38, 26, and 36 percent, respectively of the total County appropriations. In addition, the treasury function for the District Health Department rests with the Montcalm County Treasurer.

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 and GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39 and GASB Statement No. 61), 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 position 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.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

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, deferred outflows of resources, current liabilities, and deferred inflows of resources 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 the length of time used for purposes of revenue recognition in the governmental fund financial statements is 60 days. 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.

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.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources 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

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

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

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 and imprest cash.

7. Cash Held with Fiscal Agent

Cash held with fiscal agent consist of cash on deposit with the Montcalm County Treasurer.

8. Receivables

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.

9. 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 unearned revenue. They are reported as expenditures at the time individual inventory items are used.

10. Prepays

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

11. 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

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

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

12. 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.

13. 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.

14. Unearned Revenue

The Department has recorded unearned 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. Unearned revenue has also been recorded for various grant programs when cash has been received before the related expenditures have been made; therefore, the grant dollars are considered unearned.

15. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and the balance sheet when applicable will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position/fund balance that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and the balance sheet when applicable will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Currently, the Department does not report any deferred outflows of resources. However, the Department does have one type of item, which arise only under a modified accrual basis of accounting, that qualifies as a deferred inflows of resources. Accordingly, the item, unavailable revenue, is reported only in the governmental fund balance sheet. The governmental fund reports unavailable revenues from revenues collected subsequent to 60 days after year end. These amounts are deferred and recognized as an inflows of resources in the period that the amounts become available.

16. 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.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

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.
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, 2013, are composed of the following:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 1,021	\$ 22,621

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, 2013, the Department's checking accounts noted above were fully insured by the FDIC.

The cash caption on the balance sheet includes \$2,630 in imprest cash and \$1,741,464 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, 2013, 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.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

NOTE B: CASH - CONTINUED

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.

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 unavailable 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>
2014	\$ 24,000	\$ 12,000
2015	24,000	12,000
2016	24,000	12,000
2017	24,000	12,000
2018	24,000	12,000
2019-2022	<u>28,000</u>	<u>41,000</u>
	<u>\$ 148,000</u>	<u>\$ 101,000</u>

NOTE D: CAPITAL ASSETS

The following provides a summary of the changes in capital assets for the year ended September 30, 2013:

	<u>Balance Oct. 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept. 30, 2013</u>
Governmental activities				
Equipment	\$ 854,317	\$ 12,710	\$ (13,275)	\$ 853,752
Leasehold improvements	<u>188,765</u>	-	-	<u>188,765</u>
Subtotal	1,043,082	12,710	(13,275)	1,042,517
Less accumulated depreciation for:				
Equipment	(594,663)	(60,076)	13,275	(641,464)
Leasehold improvements	<u>(66,068)</u>	<u>(18,878)</u>	-	<u>(84,946)</u>
Subtotal	<u>(660,731)</u>	<u>(78,954)</u>	13,275	<u>(726,410)</u>
Capital assets, net	<u>\$ 382,351</u>	<u>\$ (66,244)</u>	<u>\$ -0-</u>	<u>\$ 316,107</u>

Depreciation expense has been allocated to governmental functions as follows: Community Health and Education \$61,985, Environmental Health \$973, and Administration \$15,996.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

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.

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, 2013:

	Balance Oct. 1, 2012	Additions	Deletions	Balance Sept. 30, 2013	Amounts Due Within One Year
Compensated absences	\$ 396,250	\$ 497,186	\$ (371,026)	\$ 522,410	\$ 489,155

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, 2013, the Department's total liability for compensated absences and related payroll taxes amounted to \$522,410, of which \$489,155 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 3% 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, 2013

NOTE G: RETIREMENT PLAN - CONTINUED

Annual Pension Cost

For the year ended September 30, 2013, the Department's annual pension cost of \$206,556 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, 2011, 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 twenty-six (26) years.

Three (3) year trend information

	Year Ended December 31,		
	2010	2011	2012
Actuarial value of assets	\$ 6,936,701	\$ 7,231,964	\$ 7,697,743
Actuarial accrued liability (AAL) (entry age)	7,581,520	8,105,589	8,593,606
Unfunded AAL	644,819	873,625	895,863
Funded ratio	91%	89%	90%
Covered payroll	\$ 2,957,858	\$ 2,837,153	\$ 2,904,168
UAAL as a percentage of covered payroll	22%	31%	31%

	Year Ended September 30,		
	2011	2012	2013
Annual pension cost	\$ 218,839	\$ 195,952	\$ 206,556
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.

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

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

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). Administrative costs of the plan are paid for by the Department.

Funding Progress

For the year ended September 30, 2013, 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 16 years.

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

Annual required contribution (ARC)	\$ 57,775
Interest on net OPEB obligation	4,773
ARC adjustment	<u>(10,320)</u>
Annual OPEB cost	52,228
Amounts contributed	
Payments of current premiums (Gross of employee reimbursement)	<u>-</u>
Increase in net OPEB obligation	52,228
Net OPEB obligation - Beginning of year	<u>119,333</u>
Net OPEB obligation - End of year	<u>\$ 171,561</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:

	2011	2012	2013
Annual OPEB cost	\$ 200,876	\$ (423,562)	\$ 52,228
Percentage contributed	0%	0%	0%
Net OPEB obligation	\$ 542,895	\$ 119,333	\$ 171,561

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Progress - continued

The funding progress of the plan as of September 30 is as follows:

	<u>2009</u>	<u>2012</u>
Actuarial value of assets	\$ -	\$ -
Actuarial accrued liability (AAL)	1,082,988	308,900
Unfunded AAL (UAAL)	1,082,988	308,900
Funded ratio	0%	0%
Annual covered payroll	\$ 744,592	\$ 731,319
Ratio of UAAL to covered payroll	145%	42%

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

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 9 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 16 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.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

NOTE I: DEFERRED COMPENSATION - CONTINUED

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.

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 administration of the Authority is directed by a nine (9) 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 Department, by resolution of the Board of Health, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the Department and the Authority.

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 liability and property damage and losses due to crime.

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 to determined to be sufficient to do so.

Liability insurance claims are expense as incurred. The liability is determined by the Michigan Municipal Risk Management Authority management based on an actuarial study performed using historical data and available insurance industry statistics. The liability includes a reserve for reported claims, and reported legal expenses as well as incurred, but not reported claims.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

NOTE J: RISK MANAGEMENT - CONTINUED

The Authority has amounts set aside 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 Mid-Michigan District Health Department incurs a loss in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Department has not been informed of any special assessments being required.

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, 2013, amounted to \$80,073.

Future minimum payments are as follows:

2014	\$ 80,073
2015	80,073
2016	80,073
2017	80,073
2018	80,073
2019	<u>13,344</u>
TOTAL PAYMENTS	<u>\$ 413,709</u>

NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established 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.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

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

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.

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	\$ 102,160
Committed	
Vacation and sick leave	522,410
Equipment	155,784
Self-insurance bonds	13,950
Retirement	308,830
Unemployment	55,000
Training	35,000
BRFS (Behavioral Risk Factor Survey)	11,522
Facility development	124,580
Donated leave	2,236
Health insurance	160,000
Potential claims	12,234
Accreditation	25,000
MIS Upgrades	50,000
Unassigned	183,818
TOTAL FUND BALANCE	<u>\$ 1,762,524</u>

NOTE M: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, were implemented during the current year. These statements incorporate 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, and fund balance, when applicable.

These statements impacted the format and reporting of the statement of net position and the balance sheet at the government-wide level and at the fund level, respectively.

Mid-Michigan District Health Department

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

NOTE N: UPCOMING PRONOUNCEMENTS

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.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The statement also requires: (1) a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required, (2) an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released, and (3) a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The Department is currently evaluating the impact this standard will have on its financial statements when adopted for the 2013-2014 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Mid-Michigan District Health Department

General Operating Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Licenses and permits	\$ 217,790	\$ 231,000	\$ 553,871	\$ 322,871
Intergovernmental				
Federal/State	2,860,888	2,676,544	2,562,091	(114,453)
Local	378,660	369,486	355,318	(14,168)
Charges for services	909,587	1,004,564	790,610	(213,954)
Interest	7,000	1,600	1,776	176
Other	7,300	13,502	42,664	29,162
TOTAL REVENUES	4,381,225	4,296,696	4,306,330	9,634
EXPENDITURES				
Current				
Salaries and wages	3,039,962	3,072,228	3,070,696	1,532
Fringe benefits	1,209,730	1,153,939	1,146,863	7,076
Supplies and materials	670,850	547,639	431,158	116,481
Contractual services	157,500	168,510	123,936	44,574
Communications	63,860	64,410	63,343	1,067
Travel and training	146,650	150,035	147,231	2,804
Insurance	42,000	35,423	35,165	258
Repairs and maintenance	52,000	51,685	5,427	46,258
Building and equipment lease and rentals	290,051	311,226	353,775	(42,549)
Printing and advertising	10,300	4,169	4,670	(501)
Postage	14,850	20,890	21,460	(570)
Other	47,895	46,018	15,512	30,506
Capital outlay	-	43,000	86,649	(43,649)
TOTAL EXPENDITURES	5,745,648	5,669,172	5,505,885	163,287
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,364,423)	(1,372,476)	(1,199,555)	172,921
OTHER FINANCING SOURCES				
County appropriations - regular	1,100,473	1,079,435	1,078,396	(1,039)
County appropriations - other	263,950	286,275	284,273	(2,002)
Cigarette tax	-	6,766	6,766	-0-
TOTAL OTHER FINANCING SOURCES	1,364,423	1,372,476	1,369,435	(3,041)
NET CHANGE IN FUND BALANCE	-0-	-0-	169,880	169,880
Fund balance, beginning of year	1,592,644	1,592,644	1,592,644	-0-
Fund balance, end of year	\$ 1,592,644	\$ 1,592,644	\$ 1,762,524	\$ 169,880

OTHER SUPPLEMENTARY INFORMATION

Mid-Michigan District Health Department

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed-through Michigan Department of Community Health			
Special Nutrition Program for Women, Infants, and Children ^(a)	10.557		
FY 12-13 Breastfeeding and Resident Services		IW100342	\$ 712,253
FY 12-13 Breastfeeding Services		W500342	79,840
			<u>792,093</u>
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	66.471		
FY 12-13		FS97548710	536
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-through Michigan Department of Community Health			
Public Health Emergency Preparedness	93.069		
FY 12-13 Bioterrorism - Hosp Preparedness+		U90TP000528	152,283
Family Planning Services	93.217		
FY 12-13		GFPHPA050173 41	101,075
Immunization Grants	93.268		
FY 12-13 IAP		H23 CCH522556	79,265
FY 12-13 Vaccine Supply		N/A	<u>247,327</u>
			<u>326,592</u>
Family Planning Services (Family Planning)	93.539		
FY 12-13		1H23IP000568	10,000
Medical Assistance Program	93.778		
FY 12-13 CSHCS Medicaid Outreach & Advocacy		05 U05M15ADM	56,500
FY 12-13 CCHSC Medicaid Outreach		05 U05M15ADM	22,476
FY 12-13 MAP - Medicaid Outreach		05 U05M15ADM	<u>178,411</u>
			<u>257,387</u>
Maternal and Child Health Services Block Grant to the States	93.994		
FY 12-13 Family Planning Services		B1MIMCHS	<u>85,204</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>932,541</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,725,170</u>
			(b)

Mid-Michigan District Health Department

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2013

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) - (b) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

(a) Denotes program tested as "major program".

(b) The following reconciles the federal revenues reported in the September 30, 2013, 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)	\$ 2,562,091
<u>Less:</u> Difference between vaccines administered (revenue per financial statements) and vaccines received (expenditures per SEFA as instructed by grantor agency)	(29,344)
<u>Less:</u> Portions of grant funding considered "State" funding	<u>(807,577)</u>
	<u><u>\$ 1,725,170</u></u>

Principals

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Steven R. Kirinovic, CPA
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INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Mid-Michigan District Health Department (the Department) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated February 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Department's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 28, 2014

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for each Major Federal Program

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, 2013. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Major Federal Program

In our opinion, the Mid-Michigan District Health Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with types of requirements that could have a direct and material effect on its major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 28, 2014

Mid-Michigan District Health Department

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X No
Significant deficiency(ies) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X No

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X No
Significant deficiency(ies) identified?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/> X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.557	Special Nutrition Program for Women, Infants, and Children
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> X Yes <input type="checkbox"/> 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, 2013

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.