

AUDIT REPORT
FIVE COUNTY MENTAL HEALTH AUTHORITY
JUNE 30, 2010

Board Members

Danny Wright, Chairman
Shelia Newman
Nancy Ormond
Bruce McWhinney
Vilma Gatling
Ernie Fleming
Ronald Alligood
Willie Marrow
Calvin Harris
Frank Read
Penny McGhee
Rachel Hux
Diane Haverstock
Dean Smith

Administrative and Financial Staff
Valerie Hennike, Executive Director
Tommy Britton, Finance Officer

FIVE COUNTY MENTAL HEALTH AUTHORITY
TABLE OF CONTENTS
JUNE 30, 2010

<u>Exhibit</u>		<u>Page</u>
	Financial Section	
	Independent Auditors' Report	5-6
	Management's Discussion and Analysis	7-14
	Basic Financial Statements:	
	Government-wide Financial Statements:	
Exhibit A	Statement of Net Assets	16
Exhibit B	Statement of Activities	17
	Fund Financial Statements:	
Exhibit C	Balance Sheet – Governmental Funds	18
Exhibit C	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Exhibit D	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Exhibit D	Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Exhibit E	Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	20
Exhibit F	Statement of Fiduciary Net Assets – Agency Fund	21
	Notes to the Financial Statements	23-41
	<u>Schedule</u>	
	Supplementary Information	
1	Schedule of Cash and Investment Balances	43
2	Schedule of Funding Progress	44

FIVE COUNTY MENTAL HEALTH AUTHORITY
TABLE OF CONTENTS
JUNE 30, 2010

	<u>Page</u>
3	45
Schedule of Employer Contributions	
Compliance Section:	
	47-48
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	49-50
Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act	
	51-52
Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act	
4	53-55
Schedule of Findings and Questioned Costs	
5	56-57
Schedule of Expenditures of Federal and State Awards	

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Mental Health Board
Five County Mental Health Authority
Henderson, North Carolina

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Five County Mental Health Authority as of and for the year then ended, June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Five County Mental Health Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

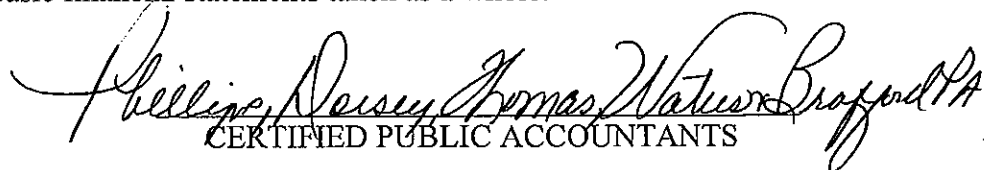
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the aggregate remaining fund information of Five County Mental Health Authority as of June 30, 2010, and the respective changes in financial position and the budgetary comparison for the general fund 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 a report dated November 30, 2010, on our consideration of Five County Mental Health Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions on pages 44 through 45 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Five County Mental Health Authority. The combining and individual fund statements, budgetary schedules and other schedules as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund statements, budgetary schedules, other schedules and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.


CERTIFIED PUBLIC ACCOUNTANTS

November 30, 2010

Management's Discussion and Analysis

As management of Five County Mental Health Authority, we offer readers of Five County Mental Health Authority's financial statements this narrative overview and analysis of the financial activities of Five County Mental Health Authority for the fiscal year ended June 30, 2010. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follows this narrative.

Financial Highlights

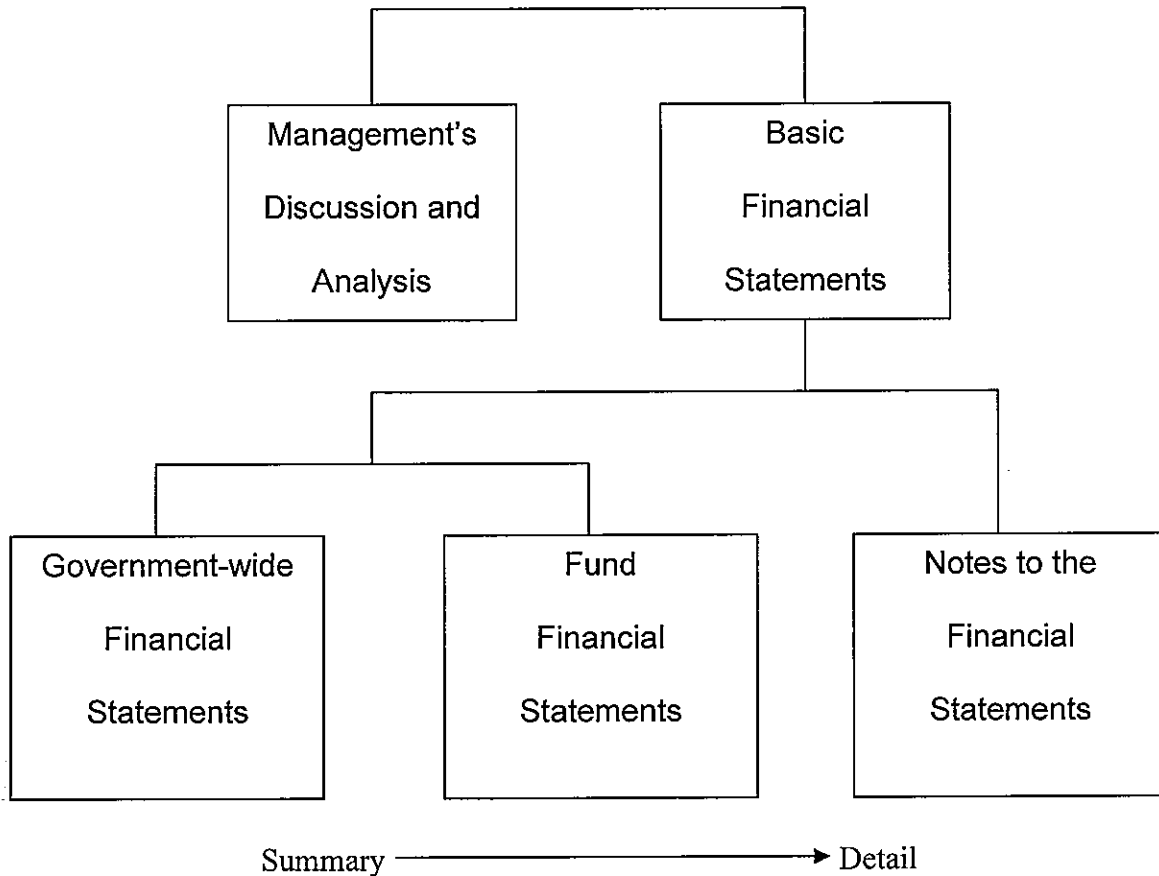
- The assets of Five County Mental Health Authority exceeded its liabilities at the close of the fiscal year by \$6,878,489 (*net assets*).
- The Authority's total net assets decreased by \$(586,235).
- As of the close of the current fiscal year, the Authority's only governmental fund, the General Fund, reported an ending fund balance of \$6,110,519, a decrease of \$(720,513) in comparison with the prior year. Approximately 58 percent of this total amount, or \$3,551,153 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund represented 16.2 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Five County Mental Health Authority's basic financial statements. The Authority's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Authority through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Five County Mental Health Authority.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Authority's financial status.

The next statements (Exhibits C through E) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Authority's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; 2) and the budgetary comparison statements; 3) the fiduciary fund statement.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Authority's activities.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Authority's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Authority's financial status as a whole.

The two government-wide statements report the Authority's net assets and how they have changed. Net assets are the difference between the Authority's total assets and total liabilities. Measuring net assets is one way to gauge the Authority's financial condition.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Authority's most significant activities. 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. Five County Mental Health Authority, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Authority's budget ordinance.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Authority's basic services are accounted for in one governmental fund, the General Fund. This fund focuses on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Authority's services. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Five County Mental Health Authority adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the five counties comprising the Authority's service area, the management of the Authority, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Authority to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Authority complied with the budget ordinance and whether or not the Authority succeeded in

providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Five County Mental Health Authority has one fiduciary fund, which is an agency fund.

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 start on page 23 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Five County Mental Health Authority’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 43 of this report.

Government-Wide Financial Analysis

Figure 2

Authority’s Net Assets

	Governmental Activities	
	2010	2009
Current and other Assets	\$ 7,817,164	\$10,463,910
Capital assets	951,800	905,914
Total Assets	<u>\$ 8,768,964</u>	<u>\$11,369,824</u>
Long-term liabilities outstanding	\$ 264,017	\$ 272,222
Other liabilities	1,626,458	3,632,878
Total liabilities	<u>\$ 1,890,475</u>	<u>\$ 3,905,100</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 951,800	\$ 905,914
Unrestricted	5,926,689	6,558,810
Total net assets	<u>\$ 6,878,489</u>	<u>\$ 7,464,724</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of Five County Mental Health Authority exceeded liabilities by \$6,878,489 as of June 30, 2010. The Authority's net assets decreased by \$(586,235) for the fiscal year ended June 30, 2010. Approximately 14 percent of net assets reflect the Authority's investment in capital assets (e.g. land, buildings, machinery and equipment). The Authority uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining balance of the Authority's net assets is unrestricted in that they are not subject to external restrictions on how they may be used.

Several particular aspects of the Authority's financial operations negatively influenced the total unrestricted governmental net assets:

- The decrease in Administrative expenses was due to a reduction in staff. The agency also received a reduction of allocation of administrative funds of \$196,736 during the current fiscal year.
- Behavioral Health Contracted Services decreased due to budget reductions at the State level that required a reduction in services purchased.

Figure 3
Authority Changes in Net Assets

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 10,800,532	\$ 14,625,605
Operating grants and contributions	9,332,231	9,207,634
General revenues:		
Grants and contributions not restricted to specific programs	996,136	1,025,550
Investment earnings	11,275	160,180
Miscellaneous, unrestricted	111,614	172,946
	\$ 21,251,788	\$ 25,191,915
Expenses:		
Administrative services	\$ 4,463,370	\$ 4,999,460
Behavioral Health Contracted Services		
Periodic	4,299,992	6,118,100
Day/Night	1,190,137	2,494,505
Residential	3,364,880	3,409,453
Crisis	3,615,099	3,689,671
Medicaid pass-through	4,308,537	4,067,607
Other	596,804	661,440
	\$ 21,838,819	\$ 25,440,236
Increase in net assets before special items	\$ (587,031)	\$ (248,321)
Special item-gain (loss) on disposal of capital assets	796	524
Increase in net assets	\$ (586,235)	\$ (247,797)
Net assets-beginning	7,464,724	7,712,521
Net assets, ending	\$ 6,878,489	\$ 7,464,724

Governmental activities. Governmental activities decreased the Authority's net assets by \$(586,235), thereby accounting for 100% of the total decrease in the net assets of the Authority. Key elements of this decrease are as follows:

- The Authority purchased behavioral health management software and finished the installation of new financial accounting software during the fiscal year. This accounted for \$185,478 of administrative expenses.
- Behavioral Health Contracted Services decreased due to budget reductions in our allocations totaling \$1,980,499.

Financial Analysis of the Authority's Funds

As noted earlier, Five County Mental Health Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of Five County Mental Health Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Five County Mental Health Authority's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of Five County Mental Health Authority. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,551,153, while total fund balance reached \$6,110,519. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 16.2 percent of total General Fund expenditures, while total fund balance represents 28 percent of that same amount. The General Fund is the Authority's only fund.

General Fund Budgetary Highlights: During the fiscal year, the Authority revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund decreased revenues by (\$528,195).

There were amendments made to the budgeted expenses, which reflected changes made in service delivery throughout the year. As in the revenues, these amendments were made as new information became available as to shifts in services. Amendments were also made as new services were added or grants were expanded. The total change made to the budget decreased expenses by (\$528,195).

Capital Asset Administration

Capital assets. Five County Mental Health Authority's capital assets for its governmental type activities as of June 30, 2010, totals \$951,800 (net of accumulated depreciation). These assets include buildings, land, equipment, and vehicles.

Major capital asset transactions during the year include:

- The major addition in the year was for the purchase of behavioral health management software. The total additions were \$185,478.

- The major dispositions in the year were for two automobiles as well as the Unicare software system.

Additional information on the Program’s capital assets can be found in note I, D.4 and III, A.2 of the Basic Financial Statements.

**Five County Mental Health Authority Capital Assets
(net of depreciation)**

	Governmental Activities	
	2010	2009
Buildings and improvements	\$ 551,575	\$ 602,072
Purchased software	160,438	-
Equipment and vehicles	239,787	303,842
Total	\$ 951,800	\$ 905,914

Economic Factors and Next Year’s Budgets and Rates

The following key economic indicators will affect the growth and overall financial condition of the Authority.

- With current budget status at the State level, the Authority anticipates major budget cuts for 2010-2011 due to the revenue shortfall of the State.
- With the current economic conditions, the Authority anticipates growing unemployment within the entire catchment area. This will result in increases in requests for State funded services.

Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental Activities:

- The Authority anticipates continued growth in demand for services with shrinking budgets. Optimal utilization of the facility based crisis center in Vance County will be crucial to continue to decrease use of the State hospital and the demand for emergency department services at local hospitals.

Requests for Information

This report is designed to provide an overview of the Authority’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Five County Mental Health Authority, 134 South Garnett Street, Henderson, NC 27536.

BASIC FINANCIAL STATEMENTS

FIVE COUNTY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 5,177,611
Accounts receivable	2,553,219
Prepaid expenses	86,334
Capital assets, net of depreciation	951,800
Total assets	<u>\$ 8,768,964</u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 713,647
Estimated refunds due	912,811
Long-term liabilities:	
Due in more than one year	264,017
Total liabilities	<u>\$ 1,890,475</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 951,800
Unrestricted	5,926,689
Total net assets	<u>\$ 6,878,489</u>

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

FIVE COUNTY MENTAL HEALTH AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
LME Administration	\$ 4,463,370	\$ -	\$ 4,563,456	\$ 100,086
Behavioral Health Contracted Services:				
Periodic	4,299,992	4,608,583	-	308,591
Day	1,190,137	1,250,136	-	59,999
Residential	3,364,880	2,646,211	420,848	(297,821)
Crisis	3,615,099	1,807,648	-	(1,807,451)
Other	596,804	487,954	106,669	(2,181)
Medicaid pass-through	4,308,537	-	4,241,258	(67,279)
Total governmental activities	<u>\$ 21,838,819</u>	<u>\$ 10,800,532</u>	<u>\$ 9,332,231</u>	<u>\$ (1,706,056)</u>
General revenues:				
Grants and contributions not restricted to specific programs				\$ 996,136
Investment earnings, unrestricted				11,275
<i>Special item</i> - Gain on disposal of assets				796
Miscellaneous, unrestricted				111,614
Total general revenues and special items				<u>\$ 1,119,821</u>
Change in net assets				<u>\$ (586,235)</u>
Net assets-beginning				7,464,724
Net assets-ending				<u>\$ 6,878,489</u>

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

FIVE COUNTY MENTAL HEALTH AUTHORITY
BALANCE SHEET
JUNE 30, 2010

	General
ASSETS	
Cash and cash equivalents	\$ 5,177,611
Accounts receivable	2,473,032
Prepaid expenses	86,334
Total assets	\$ 7,736,977
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued liabilities	\$ 713,647
Estimated refunds due	912,811
Total liabilities	\$ 1,626,458
Fund balances:	
Reserved:	
Reserved by State statute	\$ 2,559,366
Unreserved	
Designated for Medicaid Cost Settlements	40,000
Designated for Capital Asset Purchases	55,500
Designated for the purchase of software system	64,522
Designated for OPEB Expenses	1,000,000
Designated for subsequent year's expenditures	500,000
Undesignated	1,891,131
Total fund balances	\$ 6,110,519
Total liabilities and fund balances	\$ 7,736,977
 Amounts reported for governmental activities in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	\$ 951,800
Accounts receivable not reported under full accrual government wide statement of net assets and therefore not reported in the funds.	80,187
Long-term liabilities are not due and payable in the current period and therefore not reported in the funds.	(264,017)
	\$ 767,970
Fund Balance Exhibit C	6,110,519
Net assets of governmental activities	\$ 6,878,489

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

FIVE COUNTY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund
REVENUES	
Local	\$ 5,446,978
State	14,020,111
Federal	1,705,310
Total Revenues	<u>\$ 21,172,399</u>
EXPENDITURES	
Local Management Entity	\$ 4,595,107
MH/DD/SA Services	17,145,587
Five County Psychiatric Services	152,218
Total Expenditures	<u>\$ 21,892,912</u>
Net Change in fund balance	\$ (720,513)
Fund balance - July 1, 2009	<u>6,831,032</u>
Fund balance - June 30, 2010	<u><u>\$ 6,110,519</u></u>
Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balances - total governmental funds	<u>\$ (720,513)</u>
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	\$ 45,886
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	80,187
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	8,205
	<u>\$ 134,278</u>
Total changes in net assets of governmental activities	<u><u>\$ (586,235)</u></u>

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

FIVE COUNTY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Positive (Negative)
<u>Revenues</u>				
Local	\$ 4,485,811	\$ 4,985,811	\$ 5,446,978	\$ 461,167
State Funds	15,874,750	14,190,555	14,020,111	(170,444)
Federal Funds	2,551,066	2,551,066	1,705,310	(845,756)
Fund Balance Appropriation	-	656,000	-	(656,000)
Total Revenues	<u>\$ 22,911,627</u>	<u>\$ 22,383,432</u>	<u>\$ 21,172,399</u>	<u>\$ (1,211,033)</u>
<u>Expenditures</u>				
Local Management Entity	\$ 4,784,910	\$ 4,784,910	\$ 4,595,107	\$ 189,803
MH/DD/SA Services	17,363,273	17,127,745	17,145,587	(17,842)
Five County Psychiatric Services	763,444	470,777	152,218	318,559
Total Expenditures	<u>\$ 22,911,627</u>	<u>\$ 22,383,432</u>	<u>\$ 21,892,912</u>	<u>\$ 490,520</u>
Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	\$ (720,513)	<u>\$ (720,513)</u>
<u>Fund Balance-July 1, 2009</u>			<u>6,831,032</u>	
<u>Fund Balance - June 30, 2010</u>			<u>\$ 6,110,519</u>	

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

FIVE COUNTY MENTAL HEALTH AUTHORITY
STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND
JUNE 30, 2010

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 11,127</u>
Liabilities	
Liabilities:	
Intergovernmental payable	<u>\$ 11,127</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

I. Summary of Significant Accounting Policies

The accounting policies of Five County Mental Health Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

Five County Mental Health Authority is a local political subdivision of the State of North Carolina. It is empowered by Chapter 122C of the General Statutes to engage in comprehensive planning, budgeting, implementing and monitoring of community based mental health, developmental disabilities and substance abuse services to children and adults. It is governed by a Board of Directors whose fifteen members are appointed by the county commissioners of the five counties. No one county appoints a majority of the Board. Each county provides an annual appropriation to the Authority.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation, Measurement Focus – Basis of Accounting

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the Authority). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Authority. Governmental activities generally are financed through federal and state grants and fees for patient services. Business-type activities are financed in whole or in part by fees charged to external parties. The Authority has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Fund Financial Statements: The fund financial statements provide information about the Authority's funds, including the fiduciary fund. Separate statements for each fund category – *governmental and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental funds.

The Authority reports the following major governmental fund:

General Fund. This is the Authority's primary operating fund. It accounts for all financial resources of the general government.

The Authority reports the following fund type:

Agency Fund. Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the Authority holds on behalf of others. The Authority has been appointed guardian of various clients that are unable to manage their income and expenses.

Measurement Focus, Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Authority are maintained during the year using the modified accrual basis of accounting.

Government-wide and Fiduciary Fund Financial Statements: The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. The Authority considers all revenues available if they are collected within 90 days after year-end.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental funds of the Authority follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

C. Budgetary Data

The Authority's budgets are adopted as required by the North Carolina General Statutes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. The Budget Officer is authorized to reallocate appropriations among the various line item expenditures based on the Division of Mental Health, Developmental Disabilities and Substance Abuse Services budget revision procedures with the following restrictions:

- The interfund transfer of monies shall be accomplished by Board authorization only for securement of short-term loans, pending receipt of federal, State, and local monies.
- The utilization of any contingency appropriation shall be accomplished only with Board approval.

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

- No salary increases, beyond those set forth in the budget document, may be made without Board approval

The governing board must approve all amendments. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

D. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Authority are made in board-designated official depositories and are secured as required by G.S. 159-31. The Authority may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Authority may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law (G.S. 159-30(c)) authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Authority's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Nonparticipating interest earnings and investment contracts are reported at cost.

All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

2. Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated utilizing percentages and collection schedules experienced in prior years.

3. Prepaid Items

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

4. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. All assets purchased with a cost greater than \$5,000 are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the Authority are depreciated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	25
Improvements	25
Furniture and equipment	10
Vehicles	5
Computer equipment	4
Purchased computer software	7

5. Compensated Absences

The vacation policies of the Authority provide for the accumulation of up to 240 hours earned vacation leave with such leave being fully vested when earned. For the Authority's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

The sick leave policies of the Authority provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since none of the entities have any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made by the Authority.

6. Net Assets/Fund Balances

Net Assets

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, reservations or restrictions of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law (G.S. 159-13(b)(16)) restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved

Reserved by State statute – portion of fund balance, in addition to reserves for encumbrances and reserves for inventories - which is not available for appropriation under State law (G.S. 159-8(a)). This amount is usually comprised of accounts receivable and interfund receivables that are not offset by deferred revenues.

Reserved for encumbrances – portion of fund balance not available for appropriation to pay for commitments related to purchase orders and contracts that remain unperformed at year-end.

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Unreserved

Designated for subsequent year's expenditures – portion of total fund balance available for appropriation that has been designated for the adopted 2010-2011 budget ordinance.

Designated for Medicaid Cost Settlements – portion of total fund balance that has been designated to pay for possible Medicaid cost settlement paybacks.

Designated for Capital Assets Purchases – portion of total fund balance that has been designated to purchase capital assets at the Administrative building.

Designated for the purchase of software system – portion of total fund balance that has been designated to purchase a software system.

Designated for Other Post Employment Benefits expenses - portion of total fund balance that has been designated to fund retiree's insurance coverage.

Undesignated – portion of total fund balance available for appropriation that is uncommitted at year-end.

E. Reconciliation of Government-wide and Fund Financial Statements

1. *Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.*

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$767,970 is detailed on Exhibit C.

2. *Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities*

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The net adjustment of \$134,278 is detailed on Exhibit D.

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

II. Stewardship, Compliance and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

The Authority is in violation of G.S. 159-29 which requires that the Finance Officer be covered under an individual bond of not less than \$50,000.

Management's response and corrective action plan: The Authority will in the future cover the Finance Officer with an individual bond not less than \$50,000.

B. Excess of Expenditures over Appropriations

The following programs had expenditures in excess of appropriations (see Exhibit E):

MH/DD/SA Services

Management's response and corrective action plan: The Authority will utilize the new behavioral health management software to have better control of authorizations and to ensure overbilling does not occur. This program will allow a more accurate estimation of expenses that are incurred but not reported. These costs are due to the lag time between service delivery and claims filed for payment.

III. Detail Notes on All Funds

A. Assets

1. Deposits and Investments

Deposits

All of the Authority's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in its names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by their agents in its names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current

FIVE COUNTY MENTAL HEALTH AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The State Treasurer enforces standards of minimum capitalization for all pooling method financial institutions. The Authority relies on the State Treasurer to monitor those financial institutions. The Authority analyzes the financial soundness of any other financial institution used by the Authority. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Authority has no formal policy regarding custodial credit risk for deposits.

At June 30, 2010, the Authority's deposits had a carrying amount of \$833,791 and a bank balance of \$1,451,910. Of the bank balance, \$260,932 was covered by federal depository insurance and \$1,190,978 in interest bearing deposits was covered by collateral held under the Pooling Method.

Investments

As of June 30, 2010, the Authority had the following investments and maturities:

Investment Type	Fair Value	Less Than 6 Months	6-12 Months	1-3 Years
NC Capital Management Trust-Cash Portfolio	\$4,343,820	N/A	N/A	N/A

Interest Rate Risk:

The Authority does not have a formal investment policy to limit interest rate risk.

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Credit Risk:

The Authority limits investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs); however, the Authority's investments in the NC Capital Management Trust-Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2010.

Custodial Credit Risk:

For an investment, custodial credit risk is the risk that in the event of the failure of the Counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has no policy on custodial risk.

Concentration of Credit Risk:

The Authority places no limit on the amount that the Authority may invest in any one issuer.

2. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Governmental activities:				
Capital Assets being depreciated:				
Buildings	\$1,073,119	\$ -	\$ -	\$1,073,119
Purchased computer software	-	171,978	-	171,978
Equipment and vehicles	<u>1,679,625</u>	<u>13,500</u>	<u>476,760</u>	<u>1,216,365</u>
Total capital assets being depreciated	<u>\$2,752,744</u>	<u>\$ 185,478</u>	<u>\$476,760</u>	<u>\$2,461,462</u>
Less accumulated depreciation for:				
Buildings	\$ 471,047	\$ 50,497	\$ -	\$ 521,544
Purchased computer software	-	11,540	-	11,540
Equipment and vehicles	<u>1,375,783</u>	<u>77,555</u>	<u>476,760</u>	<u>976,578</u>
Total accumulated depreciation	<u>\$1,846,830</u>	<u>\$139,592</u>	<u>\$476,760</u>	<u>\$1,509,662</u>
Governmental activity capital assets, net	<u>\$ 905,914</u>			<u>\$ 951,800</u>

FIVE COUNTY MENTAL HEALTH AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Primary Government

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

General government	\$139,592
--------------------	-----------

3. Receivables

Receivables at the government-wide level at June 30, 2010, were as follows:

	<u>Accounts</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:			
General	\$ -	\$ 1,680,086	\$ 1,680,086
Provider	7,500	-	7,500
Patient Accounts	865,633	-	865,633
Total	<u>\$ 873,133</u>	<u>\$ 1,680,086</u>	<u>\$ 2,553,219</u>

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2010, were as follows:

	<u>Vendors</u>
Governmental Activities:	
General	\$ 713,647

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. Five County Mental Health Authority contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Authority is required to contribute at an actuarially determined rate. For the Authority, the current rate for employees not engaged in law enforcement is 4.8% of annual covered payroll. The contribution requirements of members and of the Program are established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended June 30, 2010, 2009, and 2008 were \$137,592, \$150,401, and \$147,623, respectively. The contributions made by the Authority equaled the required contributions for each year.

b. Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all Authority employees, permits 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 Authority has complied with changes in the laws that govern the Authority's Deferred Compensation Plan, requiring all assets of the plan to be held in trust for the exclusive benefit of the participants and their beneficiaries. Formerly, the undistributed amounts which had been deferred by the plan participants were required to be reported as assets of the Authority.

c. Other Post Employment Benefits

Plan Description. According to an Authority resolution, the Authority provides health care benefits to retirees of the Authority who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least 20 years of creditable service with the Authority. The Authority pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the

FIVE COUNTY MENTAL HEALTH AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Authority's group rates. The Authority obtains health care coverage through private insurers.

Membership of the plan consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

	General Employees
Retirees and dependents receiving benefits	16
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	62
Total	78

Funding Policy. The Authority pays the full cost of coverage for the healthcare benefits paid to qualified retirees under an Authority resolution that can be amended by the Board of Directors. Dependent coverage cost must be paid in full by the retiree. The Authority has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 4.21% of annual covered payroll. The Authority obtains healthcare coverage through private insurers.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and

FIVE COUNTY MENTAL HEALTH AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

changes in the Authority's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 141,366
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>\$ 141,366</u>
Contributions made	<u>(100,637)</u>
Increase (decrease) in net OPEB obligation	\$ 40,729
Net OPEB obligation, beginning of year	49,138
Net OPEB obligation, end of year	<u><u>\$ 89,867</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 were as follows:

For the Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u>2010</u>	<u>\$ 141,366</u>	<u>71.20%</u>	<u>\$ 89,867</u>

Funding Status and Funding Progress. As of December 31, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and thus, the unfunded actuarial accrued liability (UAAL) was \$2,395,996. The covered payroll (annual payroll of active employees covered by the plan) was \$3,355,944, and the ratio of the UAAL to the covered payroll was 71.4 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members at that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included a 3.75 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008 was 30 years.

d. Other Employment Benefits

The Authority has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, with a minimum of \$25,000 but the benefit may not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The Authority has no liability beyond the payment of monthly contributions. Contributions are

FIVE COUNTY MENTAL HEALTH AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Authority, the Authority does not determine the number of eligible participants. For the fiscal year ended June 30, 2010, the Authority made contributions to the State for death benefits of \$2,580. The Authority's required contributions for employees not engaged in law enforcement represented .09% of covered payroll. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

3. Estimated Refunds Due

Estimated Refunds Due represents management's best estimate of the amounts of revenues received that will be required to be refunded to State agencies for the following programs: Management reports that the amounts estimated for the 2003-2004 and 2004-2005 years have not been settled as of June 30, 2010.

	<u>Estimated Refunds Due</u>
For 2004-2005	
CTSP	\$ <u>20,068</u>
For 2003-2004	
CTSP	\$ 623,014
CMH	52,061
Emergency Services	4,059
CDD	47,353
AMH	135,539
MR/MI	<u>33,717</u>
Total for 2003-2004	<u>\$ 892,743</u>
 Total Estimated Refunds Due:	 <u>\$ 912,811</u>

The actual amounts to be refunded will be determined by the North Carolina Division of Mental Health, Developmental Disabilities and Substance Abuse Services and other State agencies during the settlement process and could differ from management's estimate.

FIVE COUNTY MENTAL HEALTH AUTHORITY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

4. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance coverage against these risks as follows: property insurance coverage of \$3,060,000; general liability coverage of \$1 million per occurrence; professional liability coverage of \$2 million per occurrence and workers compensation coverage up to statutory limits. Claims have not exceeded coverage in any of the last three fiscal years.

In accordance with G.S. 159-29, the Authority's employees that have access to \$100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. The Finance Officer is bonded for \$50,000 under an umbrella policy, which covers his staff.

The Authority has not purchased flood insurance since the Authority is not located in a flood plain and management does not view this as a significant risk.

5. Long-Term Obligations

a. Long-Term Obligation Activity

The following is a summary of changes in the Authority's long-term obligations for the fiscal year ended June 30, 2010:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Current</u> <u>Portion of</u> <u>Balance</u>
Governmental activities:					
Other post employment benefits	\$ 49,138	\$40,729	\$ -	\$ 89,867	\$ -
Compensated absences	<u>223,084</u>	<u>-</u>	<u>48,934</u>	<u>174,150</u>	<u>-</u>
Total governmental activities:	<u>\$ 272,222</u>	<u>\$ 40,729</u>	<u>\$ 48,934</u>	<u>\$ 264,017</u>	<u>\$ -</u>

Compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

6. Designated Fund Balance

The Area Board has designated portions of the fund balance for the following purposes:

Designated for Medicaid Cost Settlements – Management anticipates possible Medicaid cost settlement paybacks as follows:

<u>Cost Settlement Year</u>	<u>Amount</u>
2003	\$ 20,000
2004	<u>20,000</u>
Total	<u>\$ 40,000</u>

Designated for the Purchase of Capital Assets – Management anticipates purchasing a significant amount of capital assets as follows:

	<u>Amount</u>
Interior Renovations	\$ 10,000
Replace elevator penthouse door	500
Building addition for storage	<u>45,000</u>
Total Fund Balance Appropriation	<u>\$ 55,500</u>

Designated for the purchase of software system – Management has designated \$64,522 for the purchase of a new software system.

Designated for Other Post Employment Benefits – Management has designated \$1,000,000 to fund retiree’s health insurance.

Designated for subsequent year’s expenditures – Management has designated \$500,000 for the adopted 2010-2011 budget ordinance.

FIVE COUNTY MENTAL HEALTH AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**IV. Summary Disclosure of Significant Commitments and Contingencies
Federal and State Assisted Programs**

The Authority has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial; however, the Board has designated a portion of the fund balance, \$40,000, to cover possible Medicaid settlements.

Medicaid

During the fiscal year ended June 30, 2010, the Authority earned approximately \$4 million or 19% of its total revenues through fee-for service Medicaid payments. These services are subject to annual audit by the Division of Medical Assistance. Future audits could result in additional payback amounts. Furthermore, future changes in the Medicaid program could adversely affect the Authority's revenues.

SUPPLEMENTARY INFORMATION

FIVE COUNTY MENTAL HEALTH AUTHORITY
SCHEDULE OF CASH AND INVESTMENT BALANCES
JUNE 30, 2010

	As Presented In Statements	Reported Value	Fair Value
<u>Cash</u>			
In demand deposits	\$ 833,791	\$ 833,791	\$ 833,791
<u>Other Investments</u>			
North Carolina Capital Management	4,343,820	4,343,820	4,343,820
Total Cash and Investments	<u>\$ 5,177,611</u>	<u>\$ 5,177,611</u>	<u>\$ 5,177,611</u>
<u>Distribution by Fund:</u>			
General			<u>\$ 5,177,611</u>

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

FIVE COUNTY MENTAL HEALTH AUTHORITY
 OTHER POSTEMPLOYMENT BENEFITS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/ c)
12/31/2008	\$ -	\$ 2,395,996	\$ 2,395,996	0.0%	\$ 3,355,944	71.4%

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

FIVE COUNTY MENTAL HEALTH AUTHORITY
 OTHER POSTEMPLOYMENT BENEFITS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ending June 30	Annual Required Contribution (ARC)	Percentage Contributed
2010	\$ 141,366	71.2%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2008
Actuarial cost method	Projected unit credit
Amortization method	Level Percentage of Pay, open
Remaining amortization period	30 years
Asset valuation method	Market Value of Assets
Actuarial assumptions	
Investment rate of return*	4.00%
Medical cost trend rate	10.50% - 5.00%
Year of ultimate trend rate	2016
*Includes inflation at	3.75%

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

COMPLIANCE SECTION

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

To the Mental Health Board
Five County Mental Health Authority
Henderson, North Carolina

We have audited the accompanying financial statements of the governmental activities of Five County Mental Health Authority, as of and for the year ended June 30, 2010, which collectively comprises the Five County Mental Health's basic financial statements, and have issued our report thereon dated November 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control 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 a 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 the internal control over financial reporting was for 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. 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 Five County Mental Health Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the finance committee, management and others within the entity, members of the Mental Health Board and federal and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


CERTIFIED PUBLIC ACCOUNTANTS

November 30, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE
AUDIT IMPLEMENTATION ACT

To the Mental Health Board
Five County Mental Health Authority
Henderson, North Carolina

Compliance

We have audited Five County Mental Health Authority's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Five County Mental Health Authority's major federal programs for the year ended June 30, 2010. Five County Mental Health Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Five County Mental Health Authority's management. Our responsibility is to express an opinion on Five County Mental Health Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act 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 Five County Mental Health Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Five County Mental Health Authority's compliance with those requirements.

In our opinion, Five County Mental Health Authority 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 June 30, 2010.

Internal Control Over Compliance

Management of Five County Mental Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Five County Mental Health Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the 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 Authority'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 a 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 the finance committee, management, others within the entity, members of the Mental Health Board and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


CERTIFIED PUBLIC ACCOUNTANTS

November 30, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR STATE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH APPLICABLE SECTIONS OF OMB CIRCULAR A-133 AND
THE STATE SINGLE AUDIT IMPLEMENTATION ACT

To the Mental Health Board
Five County Mental Health Authority
Henderson, North Carolina

Compliance

We have audited Five County Mental Health Authority's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major State programs for the year ended June 30, 2010. Five County Mental Health Authority's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Five County Mental Health Authority's management. Our responsibility is to express an opinion on Five County Mental Health Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act 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 State program occurred. An audit includes examining, on a test basis, evidence about Five County Mental Health Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Five County Mental Health Authority's compliance with those requirements.

In our opinion, Five County Mental Health Authority 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 State programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Five County Mental Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Five County Mental Health Authority's internal control over compliance with the requirements that could have a direct and material effect on a major State program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, 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 Authority'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 State 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 State 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 the finance committee, management, others within the entity, member of the Mental Health Board and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.


CERTIFIED PUBLIC ACCOUNTANTS

November 30, 2010

FIVE COUNTY MENTAL HEALTH AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant Deficiency(s) identified that are not considered to be material weaknesses yes none reported
- Noncompliance material to financial statements noted yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant Deficiency(s) identified that are not considered to be material weaknesses yes none reported
- Noncompliance material to federal awards yes no

Type of auditors' report issued on compliance for major federal programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 yes no

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	<u>Mental Health Cluster</u>
93.958	Block Grant for Community Mental Health Services –Community Based Program-Mental Health
93.959	Block Grant for Prevention and Treatment of Substance Abuse – Substance Abuse-Substance Abuse Prevention

FIVE COUNTY MENTAL HEALTH AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditors’ Results

93.667	Social Services Block Grant – Community Based Programs Intellectual and Developmental Disabilities
14.238	Shelter Plus Care Grant

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

Auditee qualified as low-risk auditee? x yes no

State Awards

Internal Control Over State Programs:

- Material weakness(es) identified? yes x no
- Significant Deficiency(s) identified that are not considered to be material weaknesses yes x no

Noncompliance material to state awards yes x no

Type of auditors' report issued on compliance for major state programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act yes x no

Identification of major State Programs:

- Systems Management Transition
- Community Services Mental Health-Adult
- Community Services Developmental Disabilities – Adult
- Community Services Substance Abuse - Adult

FIVE COUNTY MENTAL HEALTH AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

Section IV – State Award Findings and Questioned Costs

None reported

Section V. Summary Schedule of Prior Audit Findings

There are no prior audit findings required to be reported in accordance with OMB Circular A-133.

FIVE COUNTY MENTAL HEALTH AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
JUNE 30, 2010

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Fed. (Direct &</u> <u>Pass-through)</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>
Federal Awards:			
<u>U.S. Department of Health and Human Services</u>			
<u>Substance Abuse and Mental Health Service Administration</u>			
Passed-through N.C. Dept. Of Health and Human Services			
Division of Mental Health, Developmental Disabilities and			
Substance Abuse Services:			
Substance Abuse and Mental Health Service Projects of Regional and National Significance	93.243	\$ 98,133	\$ -
Block Grants for Community Mental Health Services -Community Based Program - Mental Health	93.958	545,555	-
Social Services Block Grant			
-Community Based Programs Mental Health	93.667	40,299	-
-Community Based Programs Intellectual and Developmental Disabilities	93.667	752,763	-
Block Grant for Prevention and Treatment of Substance Abuse			
-MAJORS Substance Abuse	93.959	98,919	-
-Treatment Alternatives for Women	93.959	54,363	-
-Substance Abuse Training	93.959	919	-
-Substance Abuse - Substance Abuse Prevention	93.959	421,191	-
Total U. S. Department of Health and Human Services		<u>\$ 2,012,142</u>	<u>\$ -</u>
<u>U.S. Department Housing and Urban Development</u>			
Shelter Plus Care Grant	14.238	\$ 420,848	\$ -
Total Federal Expenditures		<u>\$ 2,432,990</u>	

FIVE COUNTY MENTAL HEALTH AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
JUNE 30, 2010

<u>Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Fed. (Direct &</u> <u>Pass-through)</u> <u>Expenditures</u>	<u>State</u> <u>Expenditures</u>
State Awards:			
<u>N.C. Dept. of Health and Human Services</u>			
<u>Division of Mental Health, Developmental Disabilities and</u>			
<u>Substance Abuse Services</u>			
Systems Management Transition		\$ -	\$ 4,483,122
Community Services Mental Health - Child		-	242,197
Community Services Mental Health - Adult		-	4,030,923
Community Services Developmental Disabilities - Child		-	216,686
Community Services Developmental Disabilities - Adult		-	3,189,181
Community Services Substance Abuse - Child		-	93,298
Community Services Substance Abuse - Adult		-	1,684,370
Total Division of Mental Health, Developmental Disabilities and Substance Abuse Services		<u>\$ -</u>	<u>\$ 13,939,777</u>
Total State Awards		<u>\$ -</u>	<u>\$ 13,939,777</u>
Total Federal and State awards		<u>\$ 2,432,990</u>	<u>\$ 13,939,777</u>

Notes to the Schedule of Federal And State Awards:

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Five County Mental Health Program 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 Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. A reconciliation appears below:

State and Federal Revenues per the State Division Confirmation	\$ 15,951,919
Adjustment to reconcile Confirmation to Schedule of Fed and State Awards	
Add HUD Receipts Not Passed Through the State Division	420,848
State and Federal Revenues per Schedule of Expenditures of Federal and State Awards	<u>\$ 16,372,767</u>
Add IPRS Amounts Accrued as Accounts Receivable	503,654
Deduct Prior Year IPRS Amounts Listed on confirmation	<u>(1,151,000)</u>
State and Federal Revenues Per Exhibit D	<u>\$ 15,725,421</u>

2. The following are clustered by the NC Department of Health and Human Services and are treated separately separately for State audit requirement purposes: Mental Health Services, Developmental Disability Waiting List Services and Substance Abuse Services.