

**Mid-South Substance Abuse Commission
East Lansing, Michigan**

FINANCIAL STATEMENTS

September 30, 2010

Mid-South Substance Abuse Commission

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mid-South Substance Abuse Commission
East Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Mid-South Substance Abuse Commission (the Commission) as of September 30, 2010, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mid-South Substance Abuse Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

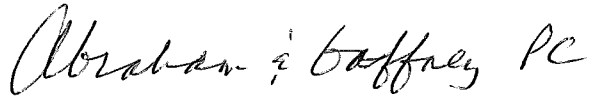
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Mid-South Substance Abuse Commission, as of September 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 11, 2011, on our consideration of Mid-South Substance Abuse Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying other supplementary information and schedule of expenditures of federal and state 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 Nonprofit Organizations*, and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 11, 2011

MID-SOUTH SUBSTANCE ABUSE COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2010

The Mid-South Substance Abuse Commission (Mid-South) was established pursuant to PA 368 of 1978 of the Michigan Public Acts. Mid-South operates under an Inter-County Agreement with the County Boards of Commissioners of the nine counties it serves including: Clinton, Eaton, Gratiot, Hillsdale, Ingham, Ionia, Jackson, Lenawee, and Newaygo. Our purpose is to serve as the body which inventories, reviews, plans, and coordinates programs and facilities which provide services for the prevention, treatment, and rehabilitation for individuals' dependent upon or abusing alcohol and other drugs. Additionally, Mid-South seeks, accepts, disburses, and administers grant funds for substance abuse service programs.

Financial Highlights

Mid-South is one of sixteen coordinating agencies across the State of Michigan which has operated with relatively stagnant on-going state and federal funding for the past 10 years. However, one-time funding increases of \$113,507 for problem gambling, Strategic Prevention Framework/State Initiative Grant (SPF/SIG), and other net state adjustments were received during the fiscal year for much needed services. Mid-South has entered into a number of braided contracts within the region which include drug courts, co-occurring mental health, health clinic, intensive home services and others that represent partnering with other systems in order to maximize funding resources and to address the full needs of our client population. Mid-South has provided the resources within each county to develop prevention coalitions. These coalitions have expanded and diversified funding by bringing in additional grant monies into their respective counties for program expansion. Mid-South completed year three of a three year SPF/SIG grant and received a small problem gambling grant to address gambling addiction.

Mid-South is the contractor with three PIHP's in our region for Medicaid and ABW substance abuse services. Mandated services include medically necessary Screening, Assessment, Referral, and Follow-up (SARF), Outpatient, Intensive Outpatient, Methadone Pharmacological, Residential, and Detoxification. As of January 1, 2010, financing for the ABW program moved from the State's Children Health Insurance Program (SCHIP) to be under the Medicaid Program. The funding for ABW was 74.23% federal and 25.77% state under the SCHIP and 73.27% federal and 26.73% state under the Medicaid Program. Additionally, in May the MDCH moved the contractual responsibility for ABW to PIHPs under full risk criteria. PIHPs then began full risk contracting with Mid-South for the ABW population. These various and significant changes to the ABW program created a tremendous challenge for all parties involved to collectively address program implications.

The general financial condition of Mid-South remains sound. Our assets exceeded liabilities at the close of Fiscal Year 2009/10 by \$460,904, an increase of \$16,012 from Fiscal Year 2008/09. Total revenues were \$10,408,355, a decrease of \$234,362 comparable to Fiscal Year 2008/09. MDCH sources decreased \$442,846 from Fiscal Year 2008/09, Medicaid decreased by \$41,590, while PA2 and Adult Benefit Waiver revenue increased by \$61,164. Total expenses were \$10,392,343 in Fiscal Year 2009/10 compared to \$10,611,218 in Fiscal Year 2008/09.

Overview of the Financial Statements

This discussion and analysis is intended to serve as a basic introduction to Mid-South's operations. All activity is included in one governmental fund. The audit report is comprised of three components as follows:

1. Management's discussion and analysis (this section)
2. Basic financial statements, and
3. Required supplementary information

The basic financial statements include notes that explain information in the statements and provide more detailed data. This audit report complies with generally accepted auditing requirements and contains other supplementary information as required under state contract.

Financial Analysis

The net assets were \$460,904 and \$444,892 at September 30, 2010 and 2009 respectively.

	<u>FY 2009/10</u>	<u>FY 2008/09</u>
Current and Other Assets	\$ 5,133,145	\$ 5,197,267
Capital Assets, Net Depreciation	<u>19,230</u>	<u>-</u>
Total Assets	<u>5,152,375</u>	<u>5,197,267</u>
Current Liabilities	4,585,234	4,664,666
Noncurrent Liabilities	<u>106,237</u>	<u>87,709</u>
Total Liabilities	<u>4,691,471</u>	<u>4,752,375</u>
Unrestricted Net Assets	461,706	444,892
Invested in capital assets, net of related debt	<u>(802)</u>	<u>-</u>
Total Net Assets	<u>\$ 460,904</u>	<u>\$ 444,892</u>

Changes in net assets for the year:

Expenses, Health and Welfare	\$(10,392,343)	\$(10,611,218)
Add: Program Revenues		
Charges for Service	2,536,498	2,474,306
Operating Grants and Contributions	<u>7,827,828</u>	<u>8,117,215</u>
Total Program Revenues	<u>10,364,326</u>	<u>10,591,521</u>
Excess of Expenses over Program Revenues	(28,017)	(19,697)
Add: General revenues (Interest and other)	<u>44,029</u>	<u>51,196</u>
Change in Net Assets	<u>\$ 16,012</u>	<u>\$ 31,499</u>

Capital assets

Mid-South's investment in capital assets (net of accumulated depreciation) for governmental activities as of September 30, 2010 was \$19,230. This investment consists of a vehicle. There were no capital assets in the prior year.

Long-term debt

At the end of the year ending September 30, 2010, Mid-South had long term indebtedness of \$178,298. This represents an installment loan of \$20,032 and compensated absences of \$158,266. The loan is related to the purchase of the capital asset in the current year, and did not exist in the prior year. Compensated absences for the year ending September 30, 2009 totaled \$153,875, which is consistent and comparable to the current year.

Budgetary Highlights

Mid-South is required to adopt an operating budget prior to the start of the fiscal year. Mid-South planned a balanced budget or variance of zero dollars. However, the actual budget variance was a favorable variance of \$94,784 to budget. Budget, actual & variance for revenue and expenditures are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue and Other Financing Sources	\$ 8,058,861	\$ 8,069,284	\$ 10,423
Expenditures	<u>8,058,861</u>	<u>7,974,500</u>	<u>84,361</u>
Increase (Decrease) in Fund Balance	<u>\$ -0-</u>	<u>\$ 94,784</u>	<u>\$ 94,784</u>

Economic Factors regarding Mid-South's Future

The economy of the State of Michigan is extremely depressed. State revenues are projected to stay the same in FY 10//11. The Governor's proposed FY2011/12 budget proposes no reductions; however, a depressed economy along with the increased demand for client service needs creates fiscal and programmatic challenges. Federal stimulus funding to the state is projected to end so revenue enhancements will not be likely. Interest rates have fallen dramatically, adversely impacting revenue generated to support administration. With all of this to address, Mid-South is continuing to develop plans and working with other systems to address, as efficiently as practicable, the needs of those we are entrusted to service.

Contacting the Commission's Financial Management

The audit report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of Mid-South's finances and to demonstrate our accountability for the funding received. If you have questions about this report or need additional information, contact the Financial Department, Mid-South Substance Abuse Commission, 2875 Northwind Drive, Ste. 215, East Lansing, MI 48823 or call 517.337.4406 extension 112.

BASIC FINANCIAL STATEMENTS

Mid-South Substance Abuse Commission

STATEMENT OF NET ASSETS

September 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 3,531,535
Investments	1,249,000
Accounts receivable	317,394
Prepays	7,795
Due from other governmental units	<u>27,421</u>
Total current assets	5,133,145
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>19,230</u>
TOTAL ASSETS	5,152,375
LIABILITIES	
Current liabilities	
Accounts payable	279,191
Due to contractor agencies	675,752
Unearned revenue	3,558,230
Current portion of installment note	4,006
Current portion of compensated absences	<u>68,055</u>
Total current liabilities	4,585,234
Noncurrent liabilities	
Noncurrent portion of installment note	16,026
Noncurrent portion of compensated absences	<u>90,211</u>
Total noncurrent liabilities	106,237
TOTAL LIABILITIES	<u>4,691,471</u>
NET ASSETS	
Invested in capital assets, net of related debt	(802)
Unrestricted	<u>461,706</u>
TOTAL NET ASSETS	<u><u>\$ 460,904</u></u>

Mid-South Substance Abuse Commission

STATEMENT OF ACTIVITIES

Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Health and welfare	<u>\$ 10,392,343</u>	<u>\$ 2,536,498</u>	<u>\$ 7,827,828</u>	\$ (28,017)
General revenues:				
Investment earnings				14,301
Miscellaneous				<u>29,728</u>
Total general revenues				<u>44,029</u>
Change in net assets				16,012
Net assets, beginning of year				<u>444,892</u>
Net assets, end of year				<u>\$ 460,904</u>

Mid-South Substance Abuse Commission
GOVERNMENTAL FUND BALANCE SHEET

September 30, 2010

	General
ASSETS	
Cash	\$ 3,531,535
Investments	1,249,000
Accounts receivable	317,394
Prepays	7,795
Due from other governmental units	27,421
TOTAL ASSETS	\$ 5,133,145
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 279,191
Due to contractor agencies	675,752
Deferred revenue	3,558,230
TOTAL LIABILITIES	4,513,173
FUND BALANCE	
Unreserved	
Designated for ABW	88,693
Undesignated	531,279
TOTAL FUND BALANCE	619,972
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,133,145

Mid-South Substance Abuse Commission

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

September 30, 2010

Fund balance - governmental fund \$ 619,972

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

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

The cost of capital assets is	\$ 24,038	
Accumulated depreciation is	<u>(4,808)</u>	
Capital assets, net		19,230

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.

Long-term liabilities at year-end consist of:

Installment note payable	(20,032)	
Compensated absences	<u>(158,266)</u>	
		<u>(178,298)</u>

Net assets of governmental activities \$ 460,904

Mid-South Substance Abuse Commission

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

Year Ended September 30, 2010

	<u>General</u>
REVENUES	
Intergovernmental	
Federal/State grants	\$ 6,001,471
Local - PA 2 Liquor Tax	1,826,357
Charges for service - Medicaid	2,536,498
Other	<u>44,029</u>
TOTAL REVENUES	10,408,355
EXPENDITURES	
Current	
Health and welfare	
State and PA2 funded programs	7,772,059
Medicaid	2,611,085
Capital outlay	24,038
Debt service	<u>4,006</u>
TOTAL EXPENDITURES	<u>10,411,188</u>
OTHER FINANCING SOURCES	
Proceeds from installment note	<u>24,038</u>
NET CHANGE IN FUND BALANCE	21,205
Fund balance, beginning of year	<u>598,767</u>
Fund balance, end of year	<u><u>\$ 619,972</u></u>

Mid-South Substance Abuse Commission

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, 2010

Net change in fund balance - governmental fund \$ 21,205

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

Capital outlays are reported as expenditures in the 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	\$ 24,038	
Depreciation expense	<u>(4,808)</u>	
		19,230

Repayment of long-term debt and borrowing of long-term debt are reported as expenditures and other financing sources in the governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Principal payments	4,006	
Proceeds from installment note	<u>(24,038)</u>	
		(20,032)

Some items reported in the statement of activities do not require the use of current financial resources and therefore the financial activity is not reported in the governmental fund. These activities consist of:

(Increase) in compensated absences		<u>(4,391)</u>
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Change in net assets of governmental activities \$ 16,012

Mid-South Substance Abuse Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

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

Mid-South Substance Abuse Commission (MSSAC) (the Commission) was established pursuant to Act 368 of the Public Acts of 1978, and the 2003 Joint Agreement between the Counties of Calhoun, Clinton, Eaton, Gratiot, Hillsdale, Ingham, Ionia, Jackson, Lenawee, and Newaygo. Calhoun County ceased participation on October 1, 2007.

Mid-South Substance Abuse Commission's purpose is to develop and administer a comprehensive plan to obtain and provide resources that prevent and reduce the misuse and abuse of alcohol and other drugs. The goal of MSSAC is to assure the availability of comprehensive, quality services in the areas of prevention, intervention, assessment, and treatment in the Mid-South service area which consists of the following nine counties: Clinton, Eaton, Gratiot, Hillsdale, Ingham, Ionia, Jackson, Lenawee, and Newaygo.

The governing board consists of seventeen (17) members, all appointed by their respective County Board of Commissioners for two year terms.

The Commission'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 Commission are discussed below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of Mid-South Substance Abuse Commission. Mid-South Substance Abuse Commission has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission 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 Commission 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 other miscellaneous revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission 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 Commission's individual major fund which is used to account for all financial resources of the Commission.

Mid-South Substance Abuse Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

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

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

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

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. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on long-term debt which is recorded when due.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash.

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

4. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by 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. Budgets are adopted on the modified accrual (GAAP) basis of accounting.

5. Cash and Investments

Cash consists of cash on hand and deposits held in various checking accounts. Investments consist of certificates of deposit with original maturities over ninety (90) days.

6. Receivables

Receivables consist of amounts due from the State of Michigan, local governmental units, and other agencies for various amounts related to unreimbursed grant expenses, liquor tax revenues, and other amounts that had not been received as of year-end.

Mid-South Substance Abuse Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

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

7. Deferred and Unearned Revenue

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

The Statement of Net Assets reports unearned revenue for resources that have been received, but not yet earned. The largest portion of amounts shown as deferred or unearned revenue, as applicable, is PA-2 dollars that have been received but not yet expended.

8. Capital Assets

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 the asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful life:

Vehicles	5 years
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9. Compensated Absences

The Commission 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 time. This amount has been divided between a current and noncurrent portion of compensated absences in the government-wide financial statements.

10. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Comparative Data

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

12. Designation of Fund Balance

The designation of fund balance shown in the fund level financial statements indicate a portion of fund balance that has been approved by the Commission governing board to be set aside for a specific purpose.

Mid-South Substance Abuse Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B: CASH

In accordance with Michigan Compiled Laws, the Commission 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.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured up to \$250,000 for interest-bearing savings deposits in an insured bank and up to \$250,000 for interest-bearing demand deposits at participating FDIC-insured institutions. FDIC insurance coverage through its Transaction Account Guarantee (TAG) Program provides unlimited insurance on non-interest bearing transaction accounts and low-interest bearing (i.e., no higher than 0.25 percent after July 1, 2010) NOW accounts. This program is scheduled to end December 31, 2010, unless extended by the FDIC. Furthermore, if specific deposits are regulated by statute or bond indenture, these deposits are to be separately insured up to \$250,000. For the purpose of these rules, the term "savings deposits" includes NOW accounts, money market deposit accounts, and other interest-bearing checking accounts. Beginning December 31, 2010 through December 31, 2012, deposits held in noninterest-bearing transaction accounts will have unlimited coverage at all FDIC-insured institutions.

Deposits

The Commission's bank deposits at September 30, 2010, are composed of the following:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 3,531,135	\$ 3,842,888
Certificates of Deposit	<u>1,249,000</u>	<u>1,249,000</u>
	<u>\$ 4,780,135</u>	<u>\$ 5,091,888</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of September 30, 2010, the Commission's accounts were fully covered by the FDIC.

The cash caption on the balance sheet includes \$400 in imprest cash.

Mid-South Substance Abuse Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE B: CASH - CONTINUED

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, 2010, the Commission did not have any investments that would be subject to rating.

Interest rate risk

The Commission 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 managing the portfolio to ensure that if certificates of deposit are utilized, they will be invested for no more than six month intervals. Longer intervals may be used with Board approval.

NOTE C: CAPITAL ASSETS

	<u>Balance</u> <u>Oct. 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Sept. 30, 2010</u>
Capital assets being depreciated:				
Vehicles	\$ -	\$ 24,038	\$ -	\$ 24,038
Less accumulated depreciation for:				
Vehicles	<u>-</u>	<u>(4,808)</u>	<u>-</u>	<u>(4,808)</u>
Capital assets, net	<u>\$ -0-</u>	<u>\$ 19,230</u>	<u>\$ -0-</u>	<u>\$ 19,230</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Commission for the year ended September 30, 2010:

	<u>Balance</u> <u>Oct. 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Sept. 30, 2010</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
Installment loan	\$ -	\$ 24,038	\$(4,006)	\$ 20,032	\$ 4,006
Compensated absences	<u>153,875</u>	<u>86,455</u>	<u>(82,064)</u>	<u>158,266</u>	<u>68,055</u>
Total	<u>\$ 153,875</u>	<u>\$ 110,493</u>	<u>\$(86,070)</u>	<u>\$ 178,298</u>	<u>\$ 72,061</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

\$24,038 Installment Loan, dated October 1, 2009, zero interest, due in monthly installments of \$333.85 through October 1, 2015.

\$ 20,032

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>
2011	\$ 4,006
2012	4,006
2013	4,006
2014	4,006
2015	<u>4,008</u>
	<u>\$ 20,032</u>

Mid-South Substance Abuse Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE D: LONG-TERM DEBT - CONTINUED

Compensated Absences

In accordance with Commission personnel policies, individual employees have rights upon termination of employment to receive payment for unused vacation time under the formulas and conditions specified in the personnel policies. The dollar amount of these rights (vested and probable to vest) including related payroll taxes amounted to \$158,266 for compensated absences at September 30, 2010. This amount has been recorded in the government-wide financial statements.

Compensated absences represent a liability to the Commission which is presented as current and noncurrent in the Statement of Net Assets. Payments to employees for accumulated compensated absences are recorded as expenditures when they are used and payments are actually made to the employees.

NOTE E: LEASES

The Organization entered into a lease beginning October 1, 2008, to rent office space under an operating lease which expires on September 30, 2018. This lease is non-cancellable except in the event state funding is lost or the Organization ceases to exist. The lease calls for monthly rental payments of \$6,671 through March 2011, and monthly payments of \$6,805 for the remainder of the year. Rental payments increase by 2% for a portion of the lease space as specified in the lease agreement. Rental expense under this lease for the year ended September 30, 2010 was \$84,430. Total remaining lease payments under the lease are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2011	\$ 80,855
2012	82,472
2013	84,121
2014	85,804
2015	87,520
2016-2018	<u>227,223</u>
	<u>\$ 647,994</u>

NOTE F: COMMITMENTS AND CONTINGENCIES

Certain contractual programs funded by MSSAC are subject to audit or program reviews by the Michigan Department of Community Health - Bureau of Mental Health and Substance Abuse Services and management. Upon audit, some expenditures may be disallowed and as a result, those amounts may be refundable. Such refunds, if any, are generally reimbursed by the subcontractor or are payable from the Organization's unrestricted fund balance. The Organization feels that any potential disallowances will be immaterial.

NOTE G: DEFINED CONTRIBUTION RETIREMENT PLAN

The Commission has a 401-K, single employer defined contribution plan, available to all eligible employees of the Commission. A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Mid-South Substance Abuse Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2010

NOTE G: DEFINED CONTRIBUTION RETIREMENT PLAN - CONTINUED

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on the investments of those contributions, and the forfeitures of other participant's account. All employees who have completed six (6) months of service are eligible to participate.

The plan allows each employee to determine his/her own contribution according to current provisions of the Internal Revenue Code. The Commission contributes a "Qualified Non-Elective Contribution" of 5.7% of the employees' salary. These contributions are not dependent on the participation of the employees. The plan uses the accrual basis of accounting with investments stated at market.

Employee and employer contributions are paid to the plan on each payroll date (bi-weekly). For the year ended September 30, 2010, the Commission's contribution to the plan was \$39,463. Employee contributions to the plan were \$45,957 for the year ended September 30, 2010.

NOTE H: RISK MANAGEMENT

The Commission is exposed to various risks of loss for liability, property, and employer's liability for which the Commission carries commercial insurance.

The Commission also carries commercial insurance for the risk of loss due to workers' compensation claims.

NOTE I: GASB PRONOUNCEMENTS

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes 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. Under this standard, the fund balance classifications of reserved, designated, and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned.

The Commission is currently evaluating the impact this standard will have on the financial statements when adopted. The Commission will implement Statement No. 54 beginning with the fiscal year ending September 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

Mid-South Substance Abuse Commission

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget Positive (Negative)
REVENUES				
Intergovernmental				
Federal/State Grants				
Adult Benefit Waiver	\$ 109,068	\$ 295,801	\$ 268,696	\$ (27,105)
Michigan Department of Community Health	6,013,459	5,639,970	5,638,257	(1,713)
MI Child	10,500	19,874	600	(19,274)
Total Federal/State Grants	6,133,027	5,955,645	5,907,553	(48,092)
Local				
PA 2 Liquor Tax	1,455,538	1,811,908	1,826,357	14,449
Charges for service				
Medicaid admin revenues	336,468	268,565	268,315	(250)
Other				
Investment	38,967	17,306	13,293	(4,013)
Other	5,437	5,437	29,728	24,291
TOTAL REVENUES	7,969,437	8,058,861	8,045,246	(13,615)
EXPENDITURES				
Current				
Health and welfare				
Payments to contractors - Block Grant	5,120,690	4,940,562	4,990,306	(49,744)
Payments to contractors - PA 2 Liquor Tax	1,509,635	1,829,811	1,662,324	167,487
Payments to contractors - Other	135,068	102,414	160,144	(57,730)
Salaries and wages	683,669	655,876	648,258	7,618
Payroll taxes and fringe benefits	250,443	251,590	234,863	16,727
Occupancy and utilities	103,888	97,742	98,408	(666)
Supplies	20,350	20,350	18,136	2,214
Contractual services	65,568	77,870	77,870	-0-
Travel and training	19,850	22,500	13,396	9,104
Miscellaneous	56,272	56,142	42,751	13,391
Capital Outlay	-	-	24,038	(24,038)
Debt Service	4,004	4,004	4,006	(2)
TOTAL EXPENDITURES	7,969,437	8,058,861	7,974,500	84,361
OTHER FINANCING SOURCES (USES)				
Proceeds from installment note	-	-	24,038	24,038
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	94,784	\$ 94,784
Non-budgeted revenues/expenditures (net)			(73,579)	
Change in fund balance, total			\$ 21,205	

Mid-South Substance Abuse Commission

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2010

NOTE A: NON-BUDGETED REVENUES/EXPENDITURES

Revenues and expenditures for Medicaid/ABW are not budgeted by the Commission as they represent entitlement funds and are therefore not discretionary amounts. For purposes of the budgetary comparison schedule, this activity is shown net in order to demonstrate the relationship of the actual results to the Statement of Revenues, Expenditures, and Changes in Fund Balance.

OTHER SUPPLEMENTARY INFORMATION

Mid-South Substance Abuse Commission
SUBSTANCE USE DISORDER SERVICES
Schedule of Budgeted, Reported, and Audited Amounts
For the Year Ended September 30, 2010

SCHEDULE A

Fund Source	Budgeted (FINAL)	Reported Expenditures (FINAL RER)	Audited Expenditures	Variance (Audited-Reported)	Local Match Funds
A State Agreement					
1 Community Grant	\$ 4,007,358	\$ 4,015,904	\$ 4,015,904	\$ -0-	
2 SDA	108,108	108,108	108,108	-0-	
3 SPF/SIG	245,166	245,166	245,166	-0-	
4 Methamphetamine	0	0	0	-0-	
5 Problem Gambling	50,699	50,307	50,307	-0-	
6 Communicable Diseases	84,287	84,287	84,287	-0-	
7 Prevention	1,144,352	1,144,352	1,144,352	-0-	
A Subtotal	<u>5,639,970</u>	<u>5,648,124</u>	<u>5,648,124</u>	<u>-0-</u>	
B Medicaid					
1 Current Year PEPM (Federal & State)	2,294,339	2,274,836	2,274,836	-0-	
2 Federal share only for Women's Specialty	246,370	246,370	246,370	-0-	
3 State share only for Women's Specialty	89,879	89,879	89,879	-0-	
4 Reinvestment Savings	0	0	0	-0-	
B Subtotal	<u>2,630,588</u>	<u>2,611,085</u>	<u>2,611,085</u>	<u>-0-</u>	
C Adult Benefit Waiver (ABW) Oct - Apr					
1 Current Year PEPM (federal share only)	259,934	174,750	174,750	-0-	
C Subtotal	<u>259,934</u>	<u>174,750</u>	<u>174,750</u>	<u>-0-</u>	
C1 Adult Benefit Waiver (ABW) May - Sept					
1 Current Year PEPM (federal and state share)	94,397	93,918	93,918	-0-	
C1 Subtotal	<u>94,397</u>	<u>93,918</u>	<u>93,918</u>	<u>-0-</u>	
D MI CHILD					
1 Current Year PEPM (federal share only)	9,605	600	600	-0-	
D Subtotal	<u>9,605</u>	<u>600</u>	<u>600</u>	<u>-0-</u>	
E Local					
1 Current Year PA2	1,824,031	1,824,031	1,824,031	-0-	\$ 1,824,031
2 PA2 Fund Balance	-	-	-	-0-	-0-
3 Other Local (R325.4152 excluding subsection (1)(b))	138,346	144,808	173,561	28,753 (1)(2)	173,561
E Subtotal	<u>1,962,377</u>	<u>1,968,839</u>	<u>1,997,592</u>	<u>28,753</u>	<u>1,997,592</u>
F Fees & Collections- Subtotal (R325.4151 (1)(d))	<u>273,349</u>	<u>273,349</u>	<u>273,349</u>	<u>-0-</u>	<u>273,349</u>
G Other Contracts & Sources (Subtotal)	<u>445,875</u>	<u>445,875</u>	<u>445,875</u>	<u>-0-</u>	<u>445,875</u>
Grand Total of Subtotals A-G	<u>\$ 11,316,095</u>	<u>\$ 11,216,540</u>	<u>\$ 11,245,293</u>	<u>\$ 28,753</u>	

Amount Billable to MDCH (Section A audited subtotal)	\$ 5,648,124
Total MDCH Payments	<u>5,651,651</u>
(Overpayment)/Underpayment	<u>\$ (3,527)</u>

Local Match Funds Total	\$ 2,716,816
Local Match Requirement [(Grand Total of Audited Exp. minus subtotal B, C, D & G) * 10%]	<u>(791,907)</u>
Local Match (Shortfall)/Excess	<u>\$ 1,924,910</u>

Variance Footnotes

- (1) \$24,038 capital outlay for vehicle purchase recorded as an offset to loan proceeds recorded in accordance with proper modified-accrual basis accounting and was included on MSSAC general ledger but not included on RER.
- (2) \$4,715 SDA funding received in January from Western UP CA was labeled as "Other Local" on RER.

Mid-South Substance Abuse Commission

SCHEDULE B

SUBSTANCE ABUSE PREVENTION AND TREATMENT

Schedule of Expenditures and Funding Sources by Program

Year Ended September 30, 2010

Program	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures				Audited Funding Sources						Variance (Audited- Reported)	Cost (Expenditures- Funding)		
			Gross Amount	Less Medicaid	Less Fees	Net Amount	State Agreement	SDA	PA2	Other Local	Other Sources	ABW			MI CHILD	Total Funding
Administration	\$ 821,474	\$ 824,297	\$ 853,050	\$ 192,223	\$ -	\$ 660,827	\$ 576,121	\$ -	\$ -	\$ 29,953	\$ -	\$ 26,000	\$ -	\$ 632,074	\$ 28,753	\$ 28,753
Prevention	1,462,796	1,462,796	1,462,796	-	24,075	1,438,721	1,144,352	-	189,295	49,125	55,949	-	-	1,438,721	-	-
Treatment	7,206,815	7,089,075	7,089,075	2,006,522	249,274	4,833,279	2,777,596	108,108	1,513,691	65,730	379,509	-	-	4,844,634	-	(11,355)
Women's Services	568,104	712,124	712,124	336,249	-	375,875	343,609	-	20,911	-	-	-	-	364,520	-	11,355
Communicable Diseases	84,287	84,287	84,287	-	-	84,287	84,287	-	-	-	-	-	-	84,287	-	-
Adult Benefit Waivers	440,135	323,737	323,737	-	-	323,737	81,069	-	-	-	-	242,668	-	323,737	-	-
MI Child	12,939	808	808	-	-	808	208	-	-	-	-	-	600	808	-	-
SPF/SIG	355,717	355,717	355,717	-	-	355,717	245,166	-	100,134	-	10,417	-	-	355,717	-	-
Problem Gambling Prevention/Treatment	50,699	50,307	50,307	-	-	50,307	50,307	-	-	-	-	-	-	50,307	-	-
Access Management System	313,129	313,392	313,392	76,091	-	237,301	237,301	-	-	-	-	-	-	237,301	-	-
Totals	\$ 11,316,095	\$ 11,216,540	\$ 11,245,293	\$2,611,085	\$273,349	\$8,360,859	\$5,540,016	\$ 108,108	\$1,824,031	\$144,808	\$445,875	\$268,668	\$ 600	\$ 8,332,106	\$ 28,753	\$ 28,753

Reconciliation of PA2 Funds:

Beginning Balance	\$ 3,375,637
Current Year PA2	1,913,543
Expenditures	(1,824,031)
SDA funding received in January	(4,715)
Ending Balance	<u>\$ 3,460,434</u>

Reconciliation of Medicaid Managed Care (PEPM) Funds:

PEPM Payments Received	\$2,611,085
Medicaid Savings Carried Over	-
Other Medicaid Revenues	-
Expenditures	(2,611,085)
Amount Carried-forward to FY 2011	<u>\$ -0-</u>

Reconciliation of RER Expenditures:

Expenditures per RER	\$11,216,540
Fees & Collections	(273,349)
Other Contracts & Sources	(445,875)
Other Local	(114,855)
Vehicle purchase	24,038
SDA funding received in January	4,715
Other	(26)
Expenditures per financial statements	<u>\$10,411,188</u>

MID-SOUTH SUBSTANCE ABUSE COMMISSION
SCHEDULE OF PA-2 FUNDING AND EXPENDITURES - COMBINED
YEAR ENDED SEPTEMBER 30, 2010

	Clinton	Eaton	Gratiot	Hillsdale	Ingham	Ionia	Jackson	Lenawee	Newaygo	Totals
BALANCE 10/1/09	\$ 150,070	\$ 377,858	\$ 120,564	\$ 123,494	\$ 1,193,673	\$ 280,825	\$ 458,488	\$ 389,237	\$ 281,428	\$ 3,375,637
RECEIPTS										
PA-2 Funds	112,636	237,426	51,036	45,952	810,397	80,399	347,197	147,336	81,165	1,913,543
PA-2 AVAILABLE	262,706	615,284	171,600	169,446	2,004,070	361,224	805,685	536,573	362,593	5,289,180
EXPENDITURES										
Addiction Solutions	-	-	42,732	-	-	-	-	-	-	42,732
Arbor Circle	-	-	-	-	-	-	-	-	64,899	64,899
Bridgeway Jackson	-	-	-	-	-	-	38,415	-	-	38,415
Carefree Clinic	-	-	-	-	64,926	-	-	-	-	64,926
Child & Family Services	-	-	-	-	82,575	-	-	-	-	82,575
Cristo Rey	-	-	-	-	56,006	-	-	-	-	56,006
CSATP - CEI	95,550	-	-	-	212,129	-	-	-	-	307,679
Community Action Agency	-	-	-	-	-	-	-	8,603	-	8,603
Drug Court	-	-	-	13,265	1,440	-	4,380	-	-	19,085
EISD	-	18,746	-	-	57,746	-	-	-	-	76,492
ESAP	-	165,682	-	-	-	-	-	-	-	165,682
FSCA	-	-	-	-	-	-	45,327	36,278	-	81,605
Gratiot RESD	-	-	12,598	-	-	-	-	-	-	12,598
Highfields	11,184	-	-	-	-	-	-	-	-	11,184
MPCB's	-	-	-	250	1,000	-	-	-	-	1,250
Home of New Vision	-	-	-	-	-	-	30,502	-	-	30,502
Intensive Home Therapy	-	-	-	-	-	-	-	50,000	-	50,000
Ionia Public Health	-	-	-	-	-	91,382	-	-	-	91,382
Ionia CMH	-	-	-	-	-	1,560	-	-	-	1,560
Jackson Breakout Drug	-	-	-	-	-	-	38,215	-	-	38,215
Jackson Emergent Detox	-	-	-	-	-	-	30,000	-	-	30,000
Life Guidance	-	-	-	-	-	-	-	-	511	511
Jackson United Way	-	-	-	-	-	-	27,484	-	-	27,484
McCullough, Vargas	-	-	-	50,307	-	-	-	56,876	-	107,183
Michgian Jobs Commssion	5,376	2,881	-	-	17,314	-	-	-	-	25,571
Power of We	-	-	-	-	5,000	-	-	-	-	5,000
NCA	-	-	-	-	220,079	-	-	-	-	220,079
Newaygo CMH	-	-	-	-	-	-	-	-	3,079	3,079
Newaygo RESA	-	-	-	-	-	-	-	-	13,549	13,549
Victory Clinic	-	-	-	-	21,542	-	-	-	-	21,542
Washington Way	-	-	-	-	-	-	129,358	-	-	129,358
TOTAL EXPENDITURES	112,110	187,309	55,330	63,822	739,757	92,942	343,682	151,757	82,038	1,828,746
BALANCE 9/30/10	\$ 150,596	\$ 427,975	\$ 116,270	\$ 105,624	\$ 1,264,313	\$ 268,282	\$ 462,003	\$ 384,816	\$ 280,555	\$ 3,460,434

Reconciliation to Schedule B PA-2 Expenditures	Reconciliation to PA-2 revenue on financial statements	Reconciliation of Schedule of PA-2 Funding and Expenditures			
Total PA-2 expenditures per this report	\$ 1,828,746	Total PA-2 expenditures per this report	\$ 1,828,746	Total deferred revenue per this report	\$ 3,460,434
SDA funding received in January	(4,715)	Receipts from Jackson County for prior year	(2,389)	Plus: Deferred revenue related to ABW/MiChild	97,796
Total PA-2 expenditures per Schedule B	\$ 1,824,031	Total PA-2 revenues per financial statements	\$ 1,826,357	Total deferred revenue per financial statements	\$ 3,558,230

Mid-South Substance Abuse Commission

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2010

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant/Contract Number	Award			Federal Expenditures
			Federal	State	Total	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
Passed Through Michigan Department of Community Health Substance Abuse and Mental Health Services - Projects of Regional and National Significance						
State Incentive Program Grant (SPF/SIG)	93.243	5 U79 SP11196-01	\$ 245,166	\$ -	\$ 245,166	\$ 245,166
Children's Health Insurance Program ^(c)	93.767					
MI Child		2010-1583-3	7,130	2,475	9,605	445
Adult Benefit Waiver Program		2010-1583-3	88,981	30,891	119,872	73,769
			96,111	33,366	129,477	74,214
Adult Benefit Waiver Program ^(d)	93.778	2010-1583-3	148,155	86,304	234,459	106,973
Block Grants for Prevention and Treatment of Substance Abuse						
SAPT Block Grant ^{(a)(b)}	93.959	10 B1 MI SAPT	4,130,713	1,032,678	5,163,391	4,128,205
TOTAL			<u>\$4,620,145</u>	<u>\$1,152,348</u>	<u>\$5,772,493</u>	<u>\$ 4,554,558</u>

(d)

See accompanying notes to Schedule of Expenditures of Federal and State Awards.

Mid-South Substance Abuse Commission

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

September 30, 2010

NOTE A: BASIS OF PRESENTATION

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

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

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

- (a) Denotes program tested as major.
- (b) Federal participation in this program is 80%, State participation is 20%.
- (c) Federal participation in this program is 80%, State participation is 20%.
- (d) The following reconciles the federal and state revenues reported in the September 30, 2010, fund financial statements to the expenditures of the Commission administered federal programs reported on the Schedule of Expenditures of Federal and State Awards:

Federal/State Revenue (per financial statements)	\$ 6,001,471
<u>Less: Portions of grant funding considered "State" funding</u>	<u>(1,446,913)</u>
	<u>\$ 4,554,558</u>

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Mid-South Substance Abuse Commission
East Lansing, Michigan

We have audited the financial statements of the governmental activities and the major fund of Mid-South Substance Abuse Commission, as of and for the year ended September 30, 2010, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated April 11, 2011. 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 Mid-South Substance Abuse Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

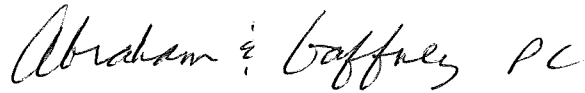
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings as 2008-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mid-South Substance Abuse Commission'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 and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors of Mid-South Substance Abuse Commission, others within the entity, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 11, 2011

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA



ABRAHAM & GAFFNEY, P.C.

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

To the Board of Directors
Mid-South Substance Abuse Commission
East Lansing, Michigan

Compliance

We have audited Mid-South Substance Abuse Commission's 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 Mid-South Substance Abuse Commission's major federal programs for the year ended September 30, 2010. Mid-South Substance Abuse Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs are the responsibility of Mid-South Substance Abuse Commission's management. Our responsibility is to express an opinion on Mid-South Substance Abuse Commission'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. 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 Mid-South Substance Abuse Commission'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 Mid-South Substance Abuse Commission's compliance with those requirements.

In our opinion, Mid-South Substance Abuse Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

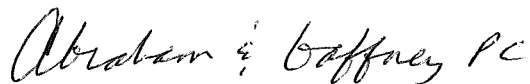
Internal Control Over Compliance

Management of Mid-South Substance Abuse Commission 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 Mid-South Substance Abuse Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on 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 Mid-South Substance Abuse Commission's internal control over compliance.

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

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

This report is intended solely for the information and use of management, the Board of Directors of Mid-South Substance Abuse Commission, others within the entity, the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 11, 2011

Mid-South Substance Abuse Commission

SCHEDULE OF FINDINGS

Year Ended September 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

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

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

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.959	Block Grant for Prevention and Treatment of Substance Abuse

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

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

Section II - Financial Statement Findings

2008-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Condition: The Commission requires the assistance of the independent auditors to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This issue was noted and reported in our prior year audit comments.

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements rests with the Commission's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Mid-South Substance Abuse Commission

SCHEDULE OF FINDINGS - CONTINUED

Year Ended September 30, 2010

Section II - Financial Statement Findings - continued

2008-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP - CONTINUED

Cause: As part of the audit process, the Commission, like many other governments, has historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Effect: The Commission relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the Commission's internal controls. By definition, independent auditors cannot be part of the Commission's internal controls.

Recommendation: We recommend the Commission consider providing applicable employees with training that would allow them to attain the qualifications required to fully understand the GAAP financial statement preparation process. Should the Commission choose not to address this issue, management and the Board of Commissioners should realize that an increased risk is present.

Corrective Action Response: We will continue to rely on our external auditors to assist in the preparation of the annual audited financial statements and footnotes consistent with our contractual agreement.

Section III - Federal Award Findings and Questioned Costs

None noted.

Mid-South Substance Abuse Commission

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended September 30, 2010

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

2008-1 PREPARATION OF FINANCIAL STATEMENTS

Condition: As part of the audit process, the Commission, like many other governments, has historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally. The Commission requires the assistance of the independent auditors to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Resolution: This issue is repeated in the current year audit findings. We do not consider it resolved.

2009-1 WRITTEN PROCEDURES AND POLICIES

Condition: Based on our discussions with management, we noted that the Commission had not formally adopted written procedures and policies for several areas of operation. Specifically, we noted the Commission did not have written procedures and policies in the following areas:

- Fraud risk management program
- Investment policy – (update for GASB 40)
- Business continuity plan
- Electronic transaction resolution
- Capitalization policy

Resolution: During the year ended September 30, 2010, the Board of Directors adopted all of the policies listed above. We consider this issue resolved.

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.