Community Mental Health Services
of Livingston County

Serving Individuals, Families and Communities

Financial Statements

For the Year Ended September 30, 2008

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LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

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INDEPENDENT AUDITORS' REPORT

March 10, 2009

To the Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the accompanying basic financial statements of the ***Livingston County Community Mental Health Authority*** as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Livingston County Community Mental Health Authority as of September 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 Authority has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Rehmann Robson

BASIC FINANCIAL STATEMENTS

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Statement of Net Assets

September 30, 2008

	Community Mental Health	Children's Pooled Funding Initiative	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 4,895,088	$ 602,057	$ 5,497,145
Accounts receivable, net	193,481	-	193,481
Due from other agencies and governments	238,195	-	238,195
Prepaids	179,792	-	179,792
Total current assets	5,506,556	602,057	6,108,613
Noncurrent assets:			
Net pension asset	672,000	-	672,000
Capital assets not being depreciated	187,475	-	187,475
Capital assets being depreciated, net	1,195,676	-	1,195,676
Total noncurrent assets	2,055,151	-	2,055,151
Total assets	7,561,707	602,057	8,163,764
Liabilities			
Current liabilities:			
Accounts payable	1,954,527	-	1,954,527
Accrued payroll	164,805	-	164,805
Due to other agencies and governments	685,553	-	685,553
Unearned revenue	325,329	-	325,329
Compensated absences, current portion	17,752	-	17,752
Total current liabilities	3,147,966	-	3,147,966
Noncurrent liabilities -			
Compensated absences, net of current portion	159,765	-	159,765
Total liabilities	3,307,731	-	3,307,731
Net assets			
Invested in capital assets	2,055,151	-	2,055,151
Unrestricted	2,198,825	602,057	2,800,882
Total net assets	$ 4,253,976	$ 602,057	$ 4,856,033

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

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Statement of Revenue, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2008

	Community Mental Health	Children's Pooled Funding Initiative	Total
Operating revenue			
State revenue:			
MDCH - general fund contract	$ 3,616,663	$ -	$ 3,616,663
Other state grants	61,738	-	61,738
Federal grants	560,997	-	560,997
Charges for services:			
Medicaid - Washtenaw CMH	13,848,950	-	13,848,950
Medicaid - other	310,430	-	310,430
Other charges for services	610,674	218,000	828,674
Local revenue:			
County contributions	614,012	-	614,012
Other local revenue	29,343	-	29,343
Total operating revenue	19,652,807	218,000	19,870,807
Operating expenses			
Mental health services:			
Personnel costs:			
Salaries and wages	5,739,126	-	5,739,126
Fringe benefits	1,797,579	-	1,797,579
Professional and contracted services	3,824,143	-	3,824,143
Client medical/dental	2,159	-	2,159
Client supplies	148,787	685	149,472
Communications	308,112	-	308,112
Conferences	83,302	-	83,302
Insurance	52,592	-	52,592
Lease expense and utilities	587,344	-	587,344
Local funds contribution	251,232	-	251,232
Medication	73,543	-	73,543
Membership dues	13,147	-	13,147
Operating supplies and other	196,696	-	196,696
Repairs and maintenance	128,216	-	128,216
Residential services	5,574,719	-	5,574,719
Transportation	96,274	-	96,274
Travel	128,294	-	128,294
Depreciation	153,581	-	153,581
Total operating expenses	19,158,846	685	19,159,531
Operating income	493,961	217,315	711,276

continued…

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Statement of Revenue, Expenses, and Changes in Fund Net Assets (Concluded)
For the Year Ended September 30, 2008

	Community Mental Health	Children's Pooled Funding Initiative	Total
Nonoperating revenue			
Interest revenue	$ 178,350	$ 27,310	$ 205,660
Net income before transfers	672,311	244,625	916,936
Transfers in	699,606	519,680	1,219,286
Transfers out	(519,680)	(699,606)	(1,219,286)
Change in net assets	852,237	64,699	916,936
Net assets, beginning of year	3,401,739	537,358	3,939,097
Net assets, end of year	$ 4,253,976	$ 602,057	$ 4,856,033

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

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Statement of Cash Flows

For the Year Ended September 30, 2008

	Community Mental Health	Children's Pooled Funding Initiative	Total
Cash flows from operating activities			
Cash received from customers and contracts	$ 19,826,436	$ 220,000	$ 20,046,436
Cash payments to suppliers for goods and services	(10,052,631)	(685)	(10,053,316)
Cash payments to employees for services	(8,137,462)	-	(8,137,462)
Net cash provided by operating activities	1,636,343	219,315	1,855,658
Cash flows from noncapital and related financing activities			
Transfers in	699,606	519,680	1,219,286
Transfers out	(519,680)	(699,606)	(1,219,286)
Net cash provided by (used in) noncapital and related financing activities	179,926	(179,926)	-
Cash flows from capital and related financing activities			
Purchase of capital assets	(4,791)	-	(4,791)
Cash flows from investing activities			
Interest received	178,350	27,310	205,660
Increase in cash and cash equivalents	1,989,828	66,699	2,056,527
Cash and cash equivalents, beginning of year	2,905,260	535,358	3,440,618
Cash and cash equivalents, end of year	$ 4,895,088	$ 602,057	$ 5,497,145

continued…

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2008

	Community Mental Health	Children's Pooled Funding Initiative	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income	$ 493,961	$ 217,315	$ 711,276
Adjustments to reconcile operating income to net cash used in operating activities:			
Depreciation	153,581	-	153,581
Changes in assets and liabilities:			
Accounts receivable	(1,186)	-	(1,186)
Due from other agencies and governments	213,839	2,000	215,839
Prepaids	(39,024)	-	(39,024)
Net pension asset	(672,000)	-	(672,000)
Accounts payable	793,222	-	793,222
Accrued payroll	57,808	-	57,808
Due to other agencies and governments	643,361	-	643,361
Unearned revenue	(20,654)	-	(20,654)
Compensated absences	13,435	-	13,435
Net cash provided by operating activities	$ 1,636,343	$ 219,315	$ 1,855,658

Non-Cash Transactions:

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

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

NOTES to the FINANCIAL STATEMENTS

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Livingston County Community Mental Health Authority (the "Authority") is a member of the Community Mental Health Partnership of Southeast Michigan. This affiliation is composed of the community mental health programs in Lenawee, Livingston, Monroe and Washtenaw counties and was formed under the authority of the Intergovernmental Transfer of Functions and Responsibilities Act.

The affiliation was formally created by written agreement and official approval of the boards of the affiliates commencing on January 1, 2002. The agreement established a legal mechanism for the preparation, submission, and implementation of a Consolidated Application to the Michigan Department of Community Health (MDCH) for a Medicaid Prepaid Health Plan. Said plan was to ensure the continuation of necessary funding to each of the affiliates to provide services to Medicaid-eligible persons in their respective communities. The Community Mental Health Partnership of Southeast Michigan was successful in its application to MDCH.

The affiliation continues to operate under its original agreement. An "Affiliation Executive Committee" (AEC) supervises and administers the execution of the agreement. The AEC is comprised of the Executive Director from each participating Authority, including the Executive Director of the Washtenaw Community Health Organization (WCHO), and a representative from the University of Michigan. WCHO is the lead agency for the affiliation. Operating under a master contract with the Michigan Department of Community Health for Medicaid Capitation Funds, WCHO executes its fiduciary responsibilities for the receipt, management, and distribution of the Medicaid funds for the region through individual contracts with each of the affiliates.

The Authority is a separate legal entity that accounts for its own financial activity under its contracts with MDCH and the Community Mental Health Partnership of Southeast Michigan. As the community mental health services program (CMHSP) provider for Livingston County, the Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are available to Livingston County residents who meet eligibility and need criteria. The Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles.

The Authority has no component units (i.e., separately legal entities for which the Authority is financially accountable) nor is it reported as a component unit of another government.

B. Basis of Presentation

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

The Authority reports the following enterprise funds:

Community Mental Health Fund – This is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Children's Pooled Funding Initiative Fund – This fund accounts for the financial activities of the child and family collaborative funding arrangement providing wraparound services to residents of Livingston County.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from Medicaid and MDCH (state general fund), earned revenues, first and third party billings (charges for services), county appropriations and local revenues. Operating expenses include the cost of providing community mental health services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

Cash and Cash Equivalents. The Authority's cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

State statutes authorize units of local government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables. Accounts receivable are shown net of an allowance for uncollectibles, which is based on management's estimate using collection history trends. Amounts due from other governments consist primarily of amounts due from MDCH.

Prepaids. Payments made to vendors for services that will benefit periods beyond September 30, 2008, are recorded as *prepaids* in the statement of net assets.

Capital Assets. Capital assets, which include buildings, furniture and fixtures, office equipment, and vehicles, are reported in the statement of net assets. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets, if any, are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized; improvements are capitalized.

The Authority's capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10-27
Computers	5
Equipment and furnishings	5-15
Vehicles	4

Payables. Accounts payable consist of amounts due to vendors and services providers, along with management's estimate of the inpatient/residential liability. This estimate is based on the clients at each facility, the number of days each client is at each facility, and the daily rate charged for each facility.

Unearned Revenue. Unearned revenue represents that portion of the current-year MDCH contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to a percentage of the MDCH contract amount (7.5% for Medicaid and 5% for general fund), and may be categorized as either Medicaid savings, or general fund carry-forwards.

Medicaid savings retain their character under the contract with MDCH, and may be spent in the next fiscal year in accordance with a Medicaid Reinvestment Strategy. State general funds carried over must generally be spent in the following year.

Compensated Absences. All regular full-time employees and all regular part-time employees are eligible for paid leave. Paid leave may be used for vacation, sickness, or personal days. An employee accrues leave time according to the number of years of service rendered and the number of hours worked per week. The accrued leave is payable to an employee at the time of termination.

II. DETAILED NOTES

A. Deposits and Investments

Cash and cash equivalents of $5,497,145 reported in the statement of net assets include bank deposits (checking and savings accounts and certificates of deposit) and cash on hand. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Authority's deposits may not be returned to it. At year end, the carrying value of the Authority's deposits was $5,496,145 and the bank balance was $6,479,757. Of the bank balance, $200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

B. Capital Assets

Capital asset activity for the year ended September 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 187,475	$ -	$ -	$ 187,475
Construction in progress	56,431	-	(56,431)	-
Total capital assets not being depreciated	243,906	-	(56,431)	187,475
Capital assets being depreciated:				
Buildings and improvements	1,311,108	-	-	1,311,108
Computers and equipment	417,296	61,222	-	478,518
Furniture	48,910	-	-	48,910
Vehicles	217,742	-	(15,887)	201,855
Total capital assets being depreciated	1,995,056	61,222	(15,887)	2,040,391
Less accumulated depreciation for:				
Buildings and improvements	306,225	57,131	-	363,356
Computers and equipment	224,962	70,750	-	295,712
Furniture	26,280	3,261	-	29,541
Vehicles	149,554	22,439	(15,887)	156,106
Total accumulated depreciation	707,021	153,581	(15,887)	844,715
Total capital assets being depreciated, net	1,288,035	(92,359)	-	1,195,676
Total capital assets, net	**$ 1,531,941**	**$ (92,359)**	**$ (56,431)**	**$ 1,383,151**

C. Long-term Debt

The following is a summary of changes in long-term debt for the Authority for the year ended September 30, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Compensated absences	$ 164,082	$ 28,435	$ (15,000)	$ 177,517	$ 17,752

D. Lease Commitments

The Authority leases certain real and personal property under operating leases. Lease expense recorded for the year ended September 30, 2008 was $362,006. Future minimum lease payments under these agreements as of September 30, 2008, are summarized as follows:

Year Ending September 30	Amount
2009	$ 252,045
2010	232,207
2011	223,010
2012	204,506
2013	203,506
2014-2018	1,021,105
2019-2023	1,019,395
2024	193,094
Total	**$ 3,348,868**

III. OTHER INFORMATION

A. 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; and injuries to employees. The Authority manages its risk exposures through commercial insurance. On risks which are commercially insured, settlements have not exceeded insurance coverage in any of the past three years.

B. MDCH Revenue and Economic Dependency

The Authority provides mental health services on behalf of the MDCH in accordance with a managed specialty supports and services contract (the "contract"). Under the contract, the Authority receives monthly capitation payments based on the number of MDCH's participants, regardless of services actually performed by the Authority. In addition, the MDCH makes fee-for-service payments to the Authority for certain covered services.

Revenues paid either directly or indirectly by MDCH represent over 90% of the Authority's total revenues and, therefore, the Authority is economically dependent on the revenues from MDCH.

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

D. Retirement Plans

Defined Benefit Pension Plan. The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The Authority's contributions are recognized when due and a formal commitment to provide the contributions has been made.

Employees are not required to contribute to the plan. The contribution requirements for the Authority are determined by the actuary. The employer contributions consist of the actuarial determined normal cost and a portion of unfunded liability (28-year amortization).

For the year ended September 30, 2008, the Authority's annual pension cost was $440,365, which was equal to the annual required contribution. The Authority made contributions of $1,112,365 resulting in a net pension asset at year-end of $672,000. The additional $672,000 was paid to fund the unfunded actuarial liability (as allowed in section 7.7.4 of the Authority's contract with MDCH). A level of percentage payroll amortization is used to determine the required contribution. The actuarial assumption included (a) 8% investment rate of return; and (b) projected salary increases of 4.5% per year.

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	Funded Ratio Total	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
12/31/05	$ 7,938,795	$ 8,894,129	$ 955,334	89%	$ 4,734,889	20%
12/31/06	9,418,586	10,228,558	809,972	92%	4,849,096	17%
12/31/07	10,492,424	11,163,735	671,311	94%	4,705,039	14%

Schedule of Employer Contributions

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
9/30/2006	$ 421,404	100%	$ -
9/30/2007	423,816	100%	-
9/30/2008	405,108	266%	672,000

Defined Contribution Retirement Plan. Effective January 1, 1999, the Authority elected to opt out of the federal social security system by a vote of the Authority's employees. Under this arrangement, provided that employees are covered under a qualifying retirement plan, no payments are required for social security, however, Medicare coverage and payments are required. All employees of the Authority are eligible to participate in this Plan.

Employee contributions to this defined contribution retirement plan are at a rate of 6.2% of gross wages; employer contributions are at a rate of 5.69% of gross wages. Under this plan, all contributions are immediately vested with the employee. During the year ended September 30, 2008, employer contributions totaled $336,745.

E. Contingent Liabilities

Amounts received or receivable from grantor/contract agencies are subject to audit and potential adjustment by those agencies, principally the state and federal governments. Any disallowed costs, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of costs which may be disallowed by the grantor or contract agencies cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

The Authority is periodically a defendant in various lawsuits. Although the outcome of such lawsuits currently pending or threatened, if any, is not presently determinable, it is the opinion of the Authority's management and counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

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LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

SINGLE AUDIT

For the Year Ended September 30, 2008

Rehmann
Business wisdom delivered.

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY SINGLE AUDIT

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For the Year Ended September 30, 2008

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Livingston County Community
Mental Health Authority
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2008

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Direct program -		
Supportive Housing Program	14.235	$ 156,545
U.S. Department of Labor		
Passed through Livingston County -		
Employment Services/Wagner-Peyser Funded Activities	17.207	175,324
U.S. Department of Health and Human Services		
Passed through Michigan Department of Human Services -		
Promoting Safe and Stable Families	93.556	121,198
Passed through Michigan Department of Community Health:		
Medical Assistance Program -		
OBRA - PASSAR	93.778	22,860
Community Mental Health Services Block Grant -		
Child Care Expulsion Prevention	93.958	85,070
Total U.S. Department of Health and Human Services		229,128
Total expenditures of federal awards		**$ 560,997**

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

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1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Livingston County Community Mental Health Authority (the "Authority") and is presented on the 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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INDEPENDENT AUDITORS' 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*

March 10, 2009

Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the basic financial statements of the ***Livingston County Community Mental Health Authority*** (the "Authority") as of and for the year ended September 30, 2008, and have issued our report thereon dated March 10, 2009. 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 Livingston County Community Mental Health Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***Livingston County Community 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*.

We noted certain matters that we reported to management of Livingston County Community Mental Health Authority in a separate letter dated March 10, 2009.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 10, 2009

Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

Compliance

We have audited the compliance of the ***Livingston County Community Mental Health Authority*** (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The 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 the Authority's management. Our responsibility is to express an opinion on the 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*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the 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, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Authority, as of and for the year ended September 30, 2008, and have issued our report thereon dated March 10, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part 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.

This report is intended solely for the information and use of the audit committee, management, the governing body, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	_____	yes	X	no
Significant deficiencies identified not considered to be material weaknesses?	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 deficiencies identified not considered to be material weaknesses?	_____	yes	X	none reported
Type of auditors' report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	_____	yes	X	no

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS (CONCLUDED)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
17.207	Employment Services/Wagner-Peyser Funded Activities
93.556	Promoting Safe and Stable Families

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

Auditee qualified as low-risk auditee? _____ yes __X__ no

SECTION II – FINANCIAL STATEMENT FINDINGS

2008-1 Preparation of Financial Statements in Accordance with GAAP

Criteria. The Authority is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Authority'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 books and records), and (2) reporting financial statements, including the related footnotes (i.e., external financial reporting).

Condition. As is the case with many smaller and medium-sized entities, the Authority has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the Authority's internal controls.

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS (CONCLUDED)

Cause. Management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

Effect. As a result of this condition, the Authority lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials. The Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in its best interest to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FEDERAL AWARD FINDINGS

No matters were reported.

* * * * *

Rehmann

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE UNDER SAS NO. 114

March 10, 2009

To the Board of Directors of the
Livingston Community Mental Health Authority
Howell, Michigan

We have audited the financial statements of the *Livingston Community Mental Health Authority* (the "Authority") for the year ended September 30, 2008, and have issued our report thereon dated March 10, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated November 18, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Authority's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Authority's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on December 11, 2008 and throughout the audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements identified during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 10, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Livingston Community Mental Health Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson

Livingston County Community Mental Health Authority

Comments and Recommendations

For the Year Ended September 30, 2008

In planning and performing our audit of the financial statements of the Livingston Community Mental Health Authority (the "Authority") as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above

Other Matters

Documenting Review and Approval of Bank Reconciliations

Effective internal control procedures should provide a clear evidence trail of who performed what procedure and when. The Authority is diligent in completing its bank reconciliations on a timely basis; however, there is no reviewer's signature to provide evidence of an independent review of the bank reconciliations by someone other than the preparer. We recommend that after the independent review of each monthly bank reconciliation is complete, that the reconciliation be initialed and dated to document that this procedure was completed and to provide a complete audit trail.

* * * * *