

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name AuSable Valley CMH	County Iosco
Fiscal Year End 09/30/2007	Opinion Date March 21, 2008	Date Audit Report Submitted to State March 28, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

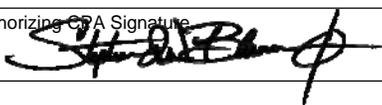
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit Report	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (616) 975-4100	
Street Address 2330 East Paris Ave. SE		City Grand Rapids	State Zip MI 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM	License Number 24801

**AUSABLE VALLEY
COMMUNITY MENTAL HEALTH**

**FINANCIAL STATEMENTS
AND SINGLE AUDIT ACT COMPLIANCE**

FOR THE YEAR ENDED SEPTEMBER 30, 2007



REHMANN ROBSON

Certified Public Accountants

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

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INDEPENDENT AUDITORS' REPORT

March 21, 2008

To AuSable Valley Community
Mental Health
Tawas City, Michigan

We have audited the accompanying financial statements of the business-type activities, the major fund, and the aggregate remaining fund information of **AuSable Valley Community Mental Health** (the "Authority"), as of and for the year ended September 30, 2007, which collectively comprise the Authority's financial statements as listed in the table of contents. These financial statements are the responsibility of AuSable Valley Community Mental Health'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 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 business-type activities, the major fund, and the aggregate remaining fund information of AuSable Valley Community Mental Health, as of September 30, 2007, and the respective changes in financial position and cash flows thereof for the year 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 21, 2008, on our consideration of AuSable Valley Community Mental Health'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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of AuSable Valley Community Mental Health taken as a whole. The accompanying schedule of expenditures of financial awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. 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.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION AND ANALYSIS



AuSable Valley Community Mental Health Services

1199 W. Harris Avenue
P.O. Box 310
TAWAS CITY, MICHIGAN 48764
(989) 362-8636
FAX (989) 362-7800

William Williams, D.O., Chairperson
Floyd R. Smith, Ph.D., Director

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2007

As management of AuSable Valley Community Mental Health, (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2007.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the current position of the Authority's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the revenue and expenses by program for the Enterprise Fund and Internal Service Fund.

FINANCIAL HIGHLIGHTS

The Authority has taken advantage of opportunities to increase its program funding this year, and to make good use of that added resource for the improvement of programs. These efforts have been shown in several ways:

- 1) We have continued our efforts at maximizing the quality and extent of our programs, and have taken the steps which are necessary to develop and maintain the resources in order to do that. We were successful in securing additional Medicaid funding, which was used to enhance our program of services for people with developmental disabilities; and to enhance our work with children with severe emotional disorders.
- 2) We have continued to work to develop our technological resources in order to create and provide the data which are necessary to receive and retain the resources which continue to make these program improvements possible. We have continued to improve our information technology, in order to allow professional staff the ability to perform their responsibilities and report on that performance in a more efficient manner. We have also made much needed improvements in our communications network.
- 3) We have brought to a successful conclusion several outstanding legal actions. Any remaining actions are not seen by legal counsel as having a significant likelihood of success in their assertion against us; and we continue to defend those issues vigorously.
- 4) We have continued our vigorous defense against any attempt by the State to take back funds by changing the rules after the fact. Specifically, we continue to wage such a defense on the issue of the Department's fiscal audits from 2001 and 2004.
- 5) We have continued to provide a careful review of the Authority's finances, in order to assure a long-term stability of the Authority. As part of this, we have sought expert consultation in improving our financial reporting, so that we will be able in the upcoming year to demonstrate on a regular basis the split between guarantors of costs. We expect this to have the outcome of allowing us to provide a careful record of such funding on a month-by-month basis.



Our financial statements provide these insights into the results of this year's operations.

The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$2,203,204 (net assets). Of this amount, \$259,185 (unrestricted net assets) may be used to meet the Authority's ongoing obligations to clients and creditors.

The Authority's total net assets decreased by \$44,157. This is a 2% decrease.

As of the close of the current fiscal year, the Authority's Enterprise Fund reported ending net assets of \$2,104,851, an increase of \$18,847 in comparison with the prior year.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenue and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, noncapital, financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements.

Analysis of Financial Position:

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets, and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2007

Summary of Net Assets:

The following summarizes the net assets of AuSable Valley Community Mental Health:

	<u>NET ASSETS SUMMARY</u>	
	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Current Assets	\$ 1,488,241	\$ 1,603,458
Noncurrent Assets	2,155,141	2,208,398
Total Assets	<u>3,643,382</u>	<u>3,811,856</u>
Current Liabilities	921,503	1,092,425
Noncurrent Liabilities	518,675	472,070
Total Liabilities	<u>1,440,178</u>	<u>1,564,495</u>
<u>Net Assets</u>		
Invested in Capital Assets, net of related debt	1,845,666	1,846,157
Restricted	98,353	161,357
Unrestricted	<u>259,185</u>	<u>239,847</u>
Total Net Assets	<u>\$ 2,203,204</u>	<u>\$ 2,247,361</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007, the Authority had \$3,311,675 invested in land, land improvements, buildings and improvements, furniture, fixtures, equipment and vehicles. Of this amount, \$1,466,009 in depreciation has been taken over the years. We currently have net book value of \$1,845,666. Total additions for the year were \$140,133. Total deletions for the year were \$153,970. An expanded and detailed presentation may be seen in Note 4 of the audit, notes to financial statements.

Long-Term Debt

At September 30, 2007, the Authority had \$530,991 of accrued compensated absences of which \$12,316 was the estimated current portion. Additional information on this balance can be found in Note 5 of the audit, notes to financial statements.

Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of AuSable Valley Community Mental Health:

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Operating revenue	\$ 13,554,830	\$ 13,089,230
Operating expenses	<u>13,814,991</u>	<u>13,386,310</u>
Operating loss	(260,161)	(297,080)
Non-operating revenue (expenses)	<u>216,004</u>	<u>218,162</u>
Change in Net Assets	(44,157)	(78,918)
Beginning Net Assets	<u>2,247,361</u>	<u>2,326,279</u>
Ending Net Assets	<u>\$ 2,203,204</u>	<u>\$ 2,247,361</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

With the State of Michigan continuing to face economic uncertainty, the funding available for Community Mental Health Programs is similarly uncertain. We continue to budget and plan at levels consistent with ongoing programs; responding to additional needs where possible, while continually monitoring for any developments at the State and Federal levels. Management will continue to work closely with the Board and Finance Committee to continue to achieve these goals. The level of volatility for 2008 appears to be reduced from what it was in 2007. We do not expect to see reductions in either our General Fund or Medicaid allocations for the year. Management will continue to report the status of such funding on a regular basis to the Authority and its Finance Committee.

REQUESTS FOR INFORMATION

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

Floyd R. Smith, Ph.D.
Executive Director
AuSable Valley Community Mental Health
1199 W. Harris Avenue
Tawas City, MI 48763
Office Telephone (989) 362-8636

BASIC FINANCIAL STATEMENTS

AUSABLE VALLEY
COMMUNITY MENTAL HEALTH
Statement of Net Assets
Proprietary Funds
September 30, 2007

	Enterprise Fund	Risk Reserve Internal Service Fund	Eliminations	Total Business- type Activities
Assets				
Current assets:				
Cash and cash equivalents	\$ 872,343	\$ -	\$ -	\$ 872,343
Accounts receivable	326,267	-	-	326,267
Escrows and deposits	44,873	-	-	44,873
Due from other funds	-	98,353	(98,353)	-
Prepaid items	226,797	-	-	226,797
Land contracts receivable, due within one year	17,961	-	-	17,961
Total current assets	<u>1,488,241</u>	<u>98,353</u>	<u>(98,353)</u>	<u>1,488,241</u>
Non-current assets:				
Land contracts receivable, net of current portion	309,475	-	-	309,475
Capital assets not being depreciated	115,412	-	-	115,412
Capital assets being depreciated, net	1,730,254	-	-	1,730,254
Total non-current assets	<u>2,155,141</u>	<u>-</u>	<u>-</u>	<u>2,155,141</u>
 Total assets	 <u>3,643,382</u>	 <u>98,353</u>	 <u>(98,353)</u>	 <u>3,643,382</u>
Liabilities				
Current liabilities:				
Accounts payable	602,947	-	-	602,947
Accrued payroll	205,655	-	-	205,655
Escrow payable	34,265	-	-	34,265
Due to other funds	98,353	-	(98,353)	-
Due to other governments	26,862	-	-	26,862
Due to affiliation	39,458	-	-	39,458
Current portion of long-term debt	12,316	-	-	12,316
Total current liabilities	<u>1,019,856</u>	<u>-</u>	<u>(98,353)</u>	<u>921,503</u>
Non-current liabilities:				
Long-term debt, net of current portion	518,675	-	-	518,675
 Total liabilities	 <u>1,538,531</u>	 <u>-</u>	 <u>(98,353)</u>	 <u>1,440,178</u>
Net assets				
Invested in capital assets	1,845,666	-	-	1,845,666
Restricted for state facility risk	-	98,353	-	98,353
Unrestricted	259,185	-	-	259,185
 Total net assets	 <u>\$ 2,104,851</u>	 <u>\$ 98,353</u>	 <u>\$ -</u>	 <u>\$ 2,203,204</u>

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

AUSABLE VALLEY
COMMUNITY MENTAL HEALTH
Statement of Revenue, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2007

	Enterprise Fund	Risk Reserve Internal Service Fund	Eliminations	Total Business- type Activities
Operating revenue				
Medicaid	\$ 8,966,163	\$ -	\$ -	\$ 8,966,163
MDCH - General Fund	2,161,146	-	-	2,161,146
Intergovernmental revenue:				
OBRA/PASARR	21,836	-	-	21,836
Teen parenting	58,346	-	-	58,346
Wraparound	67,117	-	-	67,117
IMH - Secondary prevention grant	76,648	-	-	76,648
Infants and toddlers	65,002	-	-	65,002
Community based abstinence	111,496	-	-	111,496
Substance abuse grants	370,781	-	-	370,781
Functional family therapy	30,088	-	-	30,088
Multi-dimensional treatment foster care	57,200	-	-	57,200
Adult benefit waiver	339,826	-	-	339,826
MI Child	9,329	-	-	9,329
Other state and local grants	46,266	-	-	46,266
Earned contracts	398,104	-	-	398,104
Charges for services	622,711	98,353	(98,353)	622,711
Medicaid health plan	115,348	-	-	115,348
Non-match revenue	37,423	-	-	37,423
Total operating revenue	<u>13,554,830</u>	<u>98,353</u>	<u>(98,353)</u>	<u>13,554,830</u>
Operating expenses				
Mental health services:				
Child habilitation services	(2,776)	-	-	(2,776)
Child community inpatient	10,828	-	-	10,828
Child state inpatient	1,613	-	-	1,613
Family program	1,174,984	-	-	1,174,984
Adult state inpatient	58,633	-	-	58,633
Adult community inpatient	90,171	-	-	90,171
Adult habilitation services	775,259	-	-	775,259
Adult outpatient	585,487	-	-	585,487
Adult case management	1,058,194	-	-	1,058,194

Continued...

AUSABLE VALLEY
COMMUNITY MENTAL HEALTH
Statement of Revenue, Expenses, and Changes in Net Assets (Continued)
Proprietary Funds
For the Year Ended September 30, 2007

	Enterprise Fund	Risk Reserve Internal Service Fund	Eliminations	Total Business- type Activities
Operating expenses (continued)				
Developmental disability services:				
State inpatient	\$ 180,569	\$ -	\$ (98,353)	\$ 82,216
Habilitation services	4,794,142	-	-	4,794,142
Community living	1,020,476	-	-	1,020,476
Outpatient	326,152	-	-	326,152
Case management	601,201	-	-	601,201
Respite care	34,330	-	-	34,330
Other outpatient services	339,090	-	-	339,090
Emergency services	118,651	-	-	118,651
Supported employment	703,471	-	-	703,471
Prevention	1,274,370	-	-	1,274,370
Substance abuse	768,499	-	-	768,499
Total operating expenses	13,913,344	-	(98,353)	13,814,991
Operating income (loss)	(358,514)	98,353	-	(260,161)
Non-operating revenue (expenses)				
Appropriation from local units:				
Iosco County	69,070	-	-	69,070
Ogemaw County	54,683	-	-	54,683
Oscoda County	23,800	-	-	23,800
Title XX replacement	8,200	-	-	8,200
Interest revenue	59,589	2,677	-	62,266
Loss on disposal of capital assets	(2,015)	-	-	(2,015)
Total non-operating revenue	213,327	2,677	-	216,004
Net income before transfers	(145,187)	101,030	-	(44,157)
Transfers in	164,034	-	(164,034)	-
Transfers out	-	(164,034)	164,034	-
Change in net assets	18,847	(63,004)	-	(44,157)
Net assets, beginning of year, as restated	2,086,004	161,357	-	2,247,361
Net assets, end of year	\$ 2,104,851	\$ 98,353	\$ -	\$ 2,203,204

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

**AUSABLE VALLEY
COMMUNITY MENTAL HEALTH**

Statement of Cash Flows

Proprietary Funds

For the Year Ended September 30, 2007

	Enterprise Fund	Risk Reserve Internal Service Fund
	<u> </u>	<u> </u>
Cash flows from operating activities		
Cash received from providing services	\$ 13,485,182	\$ -
Cash payments to suppliers and affiliates	(2,906,866)	-
Cash payments to employees for services	(10,883,770)	-
	<u> </u>	<u> </u>
Net cash used in operating activities	(305,454)	-
	<u> </u>	<u> </u>
Cash flows from noncapital financing activities		
Payments received on land contracts	34,805	-
Transfers in	164,034	-
Transfers out	-	(164,034)
	<u> </u>	<u> </u>
Net cash provided (used) by noncapital financing activities	198,839	(164,034)
	<u> </u>	<u> </u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(140,133)	-
	<u> </u>	<u> </u>
Cash flows from investing activities		
Interest received	59,589	2,677
	<u> </u>	<u> </u>
Decrease in cash and cash equivalents	(187,159)	(161,357)
Cash and cash equivalents, beginning of year	1,059,502	161,357
	<u> </u>	<u> </u>
Cash and cash equivalents, end of year	<u> </u> \$ 872,343	<u> </u> \$ -

**AUSABLE VALLEY
COMMUNITY MENTAL HEALTH**

Statement of Cash Flows (Concluded)

Proprietary Funds

For the Year Ended September 30, 2007

	Enterprise Fund	Risk Reserve Internal Service Fund
	<u> </u>	<u> </u>
Reconciliation of operating income to net cash provided by operating activities		
Operating (loss) income	\$ (358,514)	\$ 98,353
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	138,609	-
Appropriations from local units	155,753	
Changes in assets and liabilities:		
Accounts receivable	(56,170)	-
Escrows and deposits	938	-
Due from other funds	-	(98,353)
Prepaid items	(160,106)	-
Accounts payable	397,967	-
Accrued payroll	(377,709)	-
Escrow payable	(611)	-
Due to other funds	98,353	-
Due to other governments	(25,830)	-
Due to affiliation	(144,339)	-
Accrued compensated absences	26,205	-
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>\$ (305,454)</u>	<u>\$ -</u>

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.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

AuSable Valley Community Mental Health (the “Authority”) functions as a joint venture between Iosco, Ogemaw and Oscoda counties, and is designated as a Community Mental Health Authority under Section 205 of the Michigan Mental Health Code of 1996. The Authority operates under a 12-member appointed Board of Directors. The purpose of the Authority is to provide quality mental health services to residents of the above constituent counties, which are aimed at preventing and treating emotional problems and substance abuse; and which promote greater independence and improved quality of life for people in these counties with developmental disabilities, mental illness, or substance abuse.

Reporting Entity – These financial statements represent the financial condition and the results of operations of the Authority. The Authority is not a component of any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

Government-wide and Fund Financial Statements - As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets – Proprietary Funds and the Statement of Activities and Proprietary Fund Revenues, Expenses and Changes in Fund Net Assets. The Authority’s only major fund is reported in a separate column in the aforementioned financial statements.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is 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, public policy, management control, accountability, or other purposes.

The Risk Reserve Internal Service Fund (a proprietary fund type) is used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Community Health (MDCH).

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide and proprietary fund 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 enterprise fund is the Authority’s primary operating fund, and only major fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

Proprietary funds distinguish operating revenues and expenses from non-operating 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 MDCH and first and third party payers. Operating revenues of the internal service funds are comprised of charges to other funds for risk financing. Operating expenses include the cost of providing mental health and development disability services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents – The Authority's cash consists of cash on hand, demand deposits, short-term money market accounts, and deposits with the Iosco County Treasurer.

Receivables – Receivables consist primarily of amounts due from individuals and private or governmental insurance programs and grant reimbursements under the terms of contracts with other agencies, governments and organizations for services rendered. Receivables from first and third party payers are presented net of an allowance for uncollectible accounts as estimated by management. At September 30, 2007, the allowance was estimated at \$48,303.

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

Capital Assets – Capital assets, which include buildings, improvements, furniture and fixtures, and vehicles, are capitalized and reported in the financial statements. Capital assets are defined as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	7-50
Land improvements	20
Furniture, fixtures and equipment	5-20
Vehicles	5

Compensated Absences – Sick leave and vacation benefits are accrued as a liability using the vesting method. An accrual for earned but unused sick leave and vacation is made based on accumulated hours and wage rates at year-end, taking into consideration limits specified in the Authority's termination policy.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the follow at year-end:

Petty cash	\$ 7,871
Deposits	222,052
Deposits with Iosco County Treasurer	145,958
Fifth Third Institutional Government Money Market Fund	<u>496,462</u>
	<u>\$ 872,343</u>

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified below. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the Authority's deposits or investments had fixed maturities at year end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Authority's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified below. The investment policy does not have specific limits in excess of state law on investment credit risk. The Fifth Third Institutional Government Money Market Fund is rated AAAM by Standard & Pools.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$552,671 of the Authority's bank balance of \$655,370 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial risk. On the Fifth Third Institutional Money Market Fund, there is not custodial credit risk, as the investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

Statutory Authority

The Authority is authorized by the State of Michigan to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/1997.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

3. LAND CONTRACTS RECEIVABLE

Land contracts that were transferred from the AuSable Valley Community Mental Health Foundation are as follows:

Contract Date	Location	Original Contract	Monthly Payment	Interest Rate	Balance at 9/30/07
October 1, 1993	West Branch, MI	\$ 55,000	\$ 263	6%	\$ 15,993
January 3, 1994	West Branch, MI	57,500	412	6%	17,501
July 7, 1994	Lupton, MI	68,000	292	6%	14,828
February 19, 1999	East Tawas, MI	71,500	512	6%	33,600
September 29, 2000	Rose City, MI	75,000	432	6%	68,915
January 3, 2001	West Branch, MI	62,000	372	6%	55,876
August 6, 2002	East Tawas, MI	75,000	450	6%	46,413
June 11, 2003	Oscoda, MI	78,900	473	6%	74,310
					<u>327,436</u>
					Less: current portion <u>17,961</u>
					<u>Long-term receivable \$ 309,475</u>

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 115,412	\$ -	\$ -	\$ 115,412
Capital assets being depreciated:				
Land improvements	17,929	1,977	-	19,906
Buildings and improvements	1,617,364	87,090	-	1,704,454
Furniture fixtures and equipment	843,111	51,066	153,970	740,207
Vehicles	731,696	-	-	731,696
Total capital assets being depreciated	<u>3,210,100</u>	<u>140,133</u>	<u>153,970</u>	<u>3,196,263</u>
Less accumulated depreciation for:				
Land improvements	448	946	-	1,394
Building and improvements	291,530	17,250	-	308,780
Furniture fixtures and equipment	543,939	85,892	151,955	777,786
Vehicles	643,438	34,521	-	677,959
Total accumulated depreciation	<u>1,479,355</u>	<u>138,609</u>	<u>151,955</u>	<u>1,769,909</u>
Capital assets being depreciated, net	<u>1,730,745</u>	<u>1,524</u>	<u>2,015</u>	<u>1,730,254</u>
Total capital assets, net	<u>\$ 1,846,157</u>	<u>\$ 1,524</u>	<u>\$ 2,015</u>	<u>\$ 1,845,666</u>

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the Authority for the year ended September 30, 2007:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Business-type activities					
Compensated absences	<u>\$ 504,786</u>	<u>\$ 455,591</u>	<u>\$ (429,386)</u>	<u>\$ 530,991</u>	<u>\$ 12,316</u>

6. PENSION PLAN

The Authority has adopted a defined contribution retirement plan administered by a third party. Eligible employees include those who have completed one year of services and have attained the age of 19. Vesting in the plan is 0% for year 1-3 and 100% after year 4. The employer contribution is set at 7% of the participants' base wages and funding is provided on an annual basis. Contributions for the year were \$378,523.

7. CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have met criteria for accrual in the accompanying financial statements.

8. RESTATEMENTS

During the year ended September 30, 2007, the Authority elected to modify its reporting structure to report all funds as proprietary funds. Beginning net assets of the enterprise fund were equal to the ending net assets of governmental activities less the ending net assets of the Risk Reserve Internal Service Fund in the prior year financial statements.

* * * * *

SINGLE AUDIT ACT COMPLIANCE



**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 21, 2008

To AuSable Valley Community
Mental Health
Tawas City, Michigan

We have audited the financial statements of *AuSable Valley Community Mental Health*, as of and for the year ended September 30, 2007, and have issued our report thereon dated March 21, 2008. 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 AuSable Valley Community Mental Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AuSable Valley Community Mental Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of AuSable Valley Community Mental Health's internal control over financial reporting.

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.

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.

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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other Matters

As part of obtaining reasonable assurance about whether AuSable Valley Community Mental Health'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 AuSable Valley Community Mental Health in a separate letter dated March 21, 2008.

This report is intended solely for the information and use of management and the Board of Directors, 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.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



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

March 21, 2008

To AuSable Valley Community
Mental Health
Tawas City, Michigan

Compliance

We have audited the compliance of ***AuSable Valley Community Mental Health*** 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, 2007. AuSable Valley Community Mental Health'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 AuSable Valley Community Mental Health's management. Our responsibility is to express an opinion on AuSable Valley Community Mental Health'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 AuSable Valley Community Mental Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of AuSable Valley Community Mental Health's compliance with those requirements.

In our opinion, AuSable Valley Community Mental Health complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of AuSable Valley Community Mental Health 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 AuSable Valley Community Mental Health'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, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of AuSable Valley Community Mental Health'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 necessary 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, others within the organization, 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.

A handwritten signature in cursive script, reading "Lehmann Lohman".

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2007

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Approved Grant Award Amount	Accrued (Deferred) Revenue 10/1/2006	Current Year Cash Received	Expenditures		Accrued (Deferred) Revenue 9/30/2007
					(Memo Only) Prior Year(s)	Year Ended 9/30/2007	
U.S. Department of Education							
Passed through Iosco Regional Educational Service Agency:							
Infants and Toddlers							
061340190	84.181	\$ 65,259	\$ 1,756	\$ 1,756	\$ 45,788	\$ -	\$ -
071340190	84.181	72,728	14,784	65,438	14,784	50,654	-
081340190	84.181	14,348	-	-	-	14,348	14,348
Total U.S. Department of Education		152,335	16,540	67,194	60,572	65,002	14,348
U.S. Department of Health and Human Services							
Passed-through St. Joseph Health Systems:							
Community Based Abstinence Education Services	93.110	136,895	46,967	49,698	121,957	2,731	-
Community Based Abstinence Education Services	93.110	114,892	-	81,998	-	109,292	27,294
		251,787	46,967	131,696	121,957	112,023	27,294
Passed-through Michigan Department of Human Services:							
Promoting Safe and Stable Families							
WRAP 07-35001	93.556	24,900	-	19,235	-	22,118	2,883
WRAP 07-65001	93.556	20,000	-	20,000	-	20,000	-
WRAP 07-68001	93.556	24,999	-	24,999	-	24,999	-
		69,899	-	64,234	-	67,117	2,883
Temporary Assistance for Needy Families							
CTFPR 05-35001-2	93.558	77,081	(14,336)	(14,366)	62,745	(30)	-
CTFPR 05-35001-3	93.558	83,633	-	83,633	-	76,678	(6,955)
TP 06-65001	93.558	62,879	5,437	5,437	56,775	-	-
TP 06-65001-2	93.558	62,879	-	51,903	-	58,346	6,443
		286,472	(8,899)	126,607	119,520	134,994	(512)
State Children's Insurance Program:							
Passed through Northern Michigan Substance Abuse Services:							
Substance Abuse Adult Benefits Waiver							
Outpatient 2005/2006	93.767	23,151	392	392	16,115	-	-
Outpatient 2006/2007	93.767	14,736	-	10,237	-	10,237	-
Substance Abuse Mentally Impaired Child							
Detox 2006/2007	93.767	435	-	302	-	302	-
		38,322	392	10,931	16,115	10,539	-
Passed through Riverhaven Coordinating Agency:							
Substance Abuse Adult Benefits Waiver							
Detox 2005/2006	93.767	10,553	1,002	1,002	7,346	-	-
Detox 2006/2007	93.767	8,619	-	5,988	-	5,988	-
		19,172	1,002	6,990	7,346	5,988	-
Total State Children's Insurance Program		57,494	1,394	17,921	23,461	16,527	-
Medicaid Cluster:							
Passed through Michigan Department of Community Health:							
Substance Abuse Medicaid							
OBRA/PASARR	93.778	15,304	3,176	3,176	15,304	-	-
OBRA/PASARR	93.778	2,483	454	454	2,483	-	-
OBRA/PASARR	93.778	n/a	-	13,160	-	13,943	783
OBRA/PASARR	93.778	n/a	-	1,815	-	2,435	620
		17,787	3,630	18,605	17,787	16,378	1,403

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Schedule of Expenditures of Federal Awards (Continued)

For the Year Ended September 30, 2007

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Approved	Accrued	Current	Expenditures		Accrued
		Grant Award Amount	(Deferred) Revenue 10/1/2006	Year Cash Received	(Memo Only) Prior Year(s)	Year Ended 9/30/2007	(Deferred) Revenue 9/30/2007
U.S. Department of Health and Human Services (Continued)							
Passed through Riverhaven Coordinating Agency:							
Substance Abuse Medicaid							
Detox 2005/2006	93.778	\$ 20,332	\$ 407	\$ 407	\$ 20,332	\$ -	\$ -
Detox 2006/2007	93.778	20,118	-	11,343	-	11,343	-
		40,450	407	11,750	20,332	11,343	-
Passed through Northern Michigan Substance Abuse Services:							
Substance Abuse Medicaid							
Outpatient 2005/2006	93.778	45,198	624	624	25,578	-	-
Outpatient 2006/2007	93.778	51,074	-	28,387	-	28,796	409
Detox 2006/2007	93.778	92,213	-	51,364	-	51,990	626
		188,485	624	80,375	25,578	80,786	1,035
Total Medicaid Cluster		246,722	4,661	110,730	63,697	108,507	2,438
Block Grants for Community Mental Health Services:							
Passed through the Michigan Department of Community Health:							
05-B1MICMH-03	93.958	59,418	13,758	13,758	59,418	-	-
Functional Family Therapy 06-B1MICMHS-03	93.958	59,627	-	-	-	30,088	30,088
Multisystemic Therapy 06-B1MICMHS-03	93.958	75,000	-	563	-	57,200	56,637
		194,045	13,758	14,321	59,418	87,288	86,725
Passed through Northern Country CMH dba Northern Affiliation:							
Family Psychoeducation 06-B1MICMHS-03	93.958	1,988	-	964	-	1,988	1,024
Total Block Grants for Community Mental Health Services		196,033	13,758	15,285	59,418	89,276	87,749
Block Grants for Prevention and Treatment of Substance Abuse:							
Passed through Northern Michigan Substance Abuse Services:							
Detox 2005/2006	93.959	227,952	889	889	182,362	-	-
Detox 2006/2007	93.959	145,541	-	116,433	-	116,433	-
Outpatient 2005/2006	93.959	107,814	466	466	86,251	-	-
Outpatient 2006/2007	93.959	66,167	-	52,981	-	52,934	(47)
Prevention 2006/2007	93.959	123,750	-	99,000	-	99,000	-
		671,224	1,355	269,769	268,613	268,367	(47)
Passed through Riverhaven Coordinating Agency:							
Detox 2005/2006	93.959	72,927	1,152	1,152	58,342	-	-
Detox 2006/2007	93.959	35,323	-	26,242	-	28,258	2,016
		108,250	1,152	27,394	58,342	28,258	2,016
Total Block Grants for Prevention and Treatment of Substance Abuse		779,474	2,507	297,163	326,955	296,625	1,969
Total U.S. Department of Health and Human Services		1,887,881	60,388	763,636	715,008	825,069	121,821
Total Expenditures of Federal Awards		\$ 2,040,216	\$ 76,928	\$ 830,830	\$ 775,580	\$ 890,071	\$ 136,169

AUSABLE VALLEY COMMUNITY MENTAL HEALTH

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2007

1. Basis of Presentation

The Schedule of Expenditures of Federal Awards utilizes the same basis of accounting as the financial statements. 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*.

2. Restatements

The beginning receivable for the Infants and Toddlers program was increased by \$500 to correct federal revenue recorded as a receivable of another program in the prior year.

The beginning receivable and prior year expenses of the Community Based Abstinence Education Services were both decreased \$527 to reflect the actual amount collected.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007

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 deficiency(ies) identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) 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

Identification of major programs:

CFDA Number

93.959

Name of Federal Program or Cluster

Block Grants 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

AUSABLE VALLEY COMMUNITY MENTAL HEALTH
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended September 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

March 21, 2008

To the Board of Directors of
AuSable Valley Community Mental Health
Tawas City, Michigan

We have audited the financial statements of AuSable Valley Community Mental Health for the year ended September 30, 2007, and have issued our report thereon dated March 21, 2008. 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 August 15, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered AuSable Valley Community Mental Health's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 AuSable Valley Community Mental Health'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 AuSable Valley Community Mental Health'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 AuSable Valley Community Mental Health's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on AuSable Valley Community Mental Health's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by AuSable Valley Community Mental Health 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 AuSable Valley Community Mental Health during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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.

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.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on AuSable Valley Community Mental Health's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by AuSable Valley Community Mental Health, either individually or in the aggregate, indicate matters that could have a significant effect on AuSable Valley Community Mental Health's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

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 governmental unit'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.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

This letter and the accompanying memorandum are intended for the use of the Board of Directors, 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.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Johnson".

AuSable Valley Community Mental Health

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of AuSable Valley Community Mental Health as of and for the year ended September 30, 2007, 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.

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.

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.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other Matters

Independent Review and Approval of Journal Entries

During our audit, we noted that not all general journal entries are subject to review and signed approval by an independent administrator or board member. In order to strengthen internal controls over these non-routine transactions, we recommend that the Authority develop a procedure requiring all general journal entries to be reviewed and approved by a knowledgeable individual other than the preparer.

Approval for Routine Invoices

We noted that routine invoices, such as those for utilities, are not subject to the same review and approval prior to payment as other transactions. We understand that the Board Treasurer reviews all disbursements (including routine invoices) as part of providing oversight for the Authority's disbursements. However, this process is not currently evidenced by any written approval. In order to enhance the audit trail over this internal control, we recommend that the Treasurer initial each check register reviewed as documentation that this review took place.

AuSable Valley Community Mental Health

Comments and Recommendations

For the Year Ended September 30, 2007

Segregation of Duties over Cash Receipts

During our audit, we noted that the Authority lacks segregation of duties between physically receipting cash and checks, and preparing and making bank deposits. Due to the small number of finance staff, segregation of these incompatible duties may prove to be difficult. Accordingly, we recommend that management and the Board continue to provide appropriate oversight to mitigate the risks inherent to a limited segregation of duties.

Background Checks for Accounting Personnel

The Authority does not currently have a policy in place requiring background checks prior to hiring new accounting personnel. We recommend that the Authority consider developing such a policy.

Review and Approval of Timesheets

During our audit, we noted that timesheets are not consistently reviewed and approved by an appropriate supervisor. In addition, while we understand that the Board Treasurer reviews all payroll registers as part of providing oversight for the Authority's payroll disbursements, this process is not currently evidenced by any written approval. In order to enhance the audit trail over this internal control, we recommend that the Treasurer initial each payroll register reviewed as documentation that this review took place.

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