

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 Allegan County CMH Board		County Allegan	
Fiscal Year End September 30, 2007		Opinion Date March 25, 2008		Date Audit Report Submitted to State March 26, 2008 / Re-submitted 5/9/2008			

We affirm that:

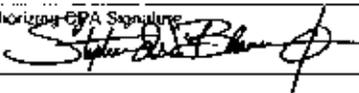
We are certified public accountants licensed to practice in Michigan.

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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input type="checkbox"/> <input checked="" type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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 type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (616) 975-4100	
Street Address 2330 East Paris SE		City Grand Rapids	State Zip MI 49546
Authorized CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM	License Number 24801

**ALLEGAN COUNTY COMMUNITY
MENTAL HEALTH BOARD**

**FINANCIAL STATEMENTS
AND
SINGLE AUDIT**

FOR THE YEAR ENDED SEPTEMBER 30, 2007



REHMANN ROBSON

Certified Public Accountants

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

March 25, 2008

To the Allegan County Community
Mental Health Board
Allegan, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Allegan County Community Mental Health Board (the "Board"), a special revenue fund and two internal service funds of Allegan County, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Board's financial statements as listed in the table of contents. These financial statements are the responsibility of the Allegan County Community Mental Health Board'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.

As discussed in Note 1, the financial statements present only the Allegan County Community Mental Health Board funds and do not purport to, and do not present fairly the financial position of Allegan County, Michigan as of September 30, 2007 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Allegan County Community Mental Health Board, as of September 30, 2007, and the respective changes in financial position and cash flows thereof and the budgetary comparison for the major special revenue fund 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 25, 2008, on our consideration of the Allegan County Community Mental Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Board has not presented Management's Discussion and Analysis as required supplementary information. The Government Accounting Standards Board has determined such information is required to supplement, although not be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan County Community Mental Health Board's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

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

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

Statement of Net Assets and Special Revenue Fund Balance Sheet

September 30, 2007

	<u>Special Revenue Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,260,463	\$ 571,169	\$ 2,831,632
Receivables:			
Outpatient fees	26,296	-	26,296
Medicaid	26,057	-	26,057
Medicare	84,308	-	84,308
Insurances	16,941	-	16,941
Industrial contracts	2,276	-	2,276
Other, net of allowance of \$4,317	373,350	-	373,350
Prepaid items	134,299	7,565	141,864
Capital assets, net of accumulated depreciation	-	144,766	144,766
	<u>\$ 2,923,990</u>	<u>723,500</u>	<u>3,647,490</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accounts payable	\$ 1,978,338	-	1,978,338
Cash held for others	27,968	-	27,968
Accrued expenses	268,850	135,318	404,168
Accrued compensated absences	-	314,801	314,801
Unearned revenue	14,696	-	14,696
	<u>2,289,852</u>	<u>450,119</u>	<u>2,739,971</u>
Fund balance			
Reserved for prepaid items	134,299	(134,299)	-
Unreserved - undesignated	499,839	(499,839)	-
	<u>634,138</u>	<u>(634,138)</u>	<u>-</u>
	<u>\$ 2,923,990</u>		
Net assets			
Invested in capital assets		144,766	144,766
Unrestricted		762,753	762,753
		<u>\$ 907,519</u>	<u>\$ 907,519</u>

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

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Reconciliation of Special Revenue Fund Balance Sheet
to Statement of Net Assets**

September 30, 2007

Fund balance - Special Revenue Fund	\$ 634,138
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Amounts reported for *governmental activities* in the statement of net assets are different because:

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

Add - equipment and vehicles	638,198
Deduct - accumulated depreciation	(493,432)

Assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add - cash and prepaid items	578,734
Deduct - accrued self-insurance claims	(135,318)
Deduct - accrued compensated absences	(314,801)

Net assets of governmental activities	<u>\$ 907,519</u>
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The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Activities and Special Revenue Fund Revenues,
Expenditures and Changes in Fund Balance**

For the Year Ended September 30, 2007

	<u>Special Revenue Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenue			
Medicaid fee for service and capitation	\$ 13,287,842	\$ -	\$ 13,287,842
Intergovernmental:			
Federal	871,100	-	871,100
State	2,011,600	-	2,011,600
Charges for services:			
Other insurance	208,453	-	208,453
Other service fees	222,473	-	222,473
Interest	73,227	8,981	82,208
Other revenues and reimbursements:			
Revenue contracts	43,579	-	43,579
Other	312,628	-	312,628
 Total revenue	 <u>17,030,902</u>	 <u>8,981</u>	 <u>17,039,883</u>
Expenditures/expenses			
Health and welfare:			
Personnel costs	7,816,704	(114,138)	7,702,566
Operating costs	9,535,616	156,166	9,691,782
Capital outlay	92,293	(92,293)	-
 Total expenditures/expenses	 <u>17,444,613</u>	 <u>(50,265)</u>	 <u>17,394,348</u>
 Excess (deficiency) of revenue over (under) expenditures/expenses	 (413,711)	 59,246	 (354,465)
Other financing sources			
Transfer in - County appropriation	209,942	-	209,942
 Net change in fund balance/change in net assets	 (203,769)	 59,246	 (144,523)
Fund balance/net assets			
Beginning of year, as restated	837,907	214,135	1,052,042
 End of year	 <u>\$ 634,138</u>	 <u>\$ 273,381</u>	 <u>\$ 907,519</u>

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

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Reconciliation of the Special Revenue Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended September 30, 2007

Net change in fund balance - Special Revenue Fund	\$ (203,769)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Special revenue funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Deduct - depreciation expense	(63,873)
Interest income of the internal service fund is recorded as an increase to interest income of governmental activities.	8,981
Net operating income of the internal service fund is recorded in governmental activities in the statement of activities.	<u>114,138</u>
Change in net assets of governmental activities	<u><u>\$ (144,523)</u></u>

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

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Revenue, Expenditures and Changes in Fund Balance -
Special Revenue Fund Budget and Actual**

For the Year Ended September 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Medicaid fee for service and capitation	\$ 14,235,378	\$ 14,235,378	\$ 13,287,842	\$ (947,536)
Intergovernmental:				
Federal	1,047,390	1,047,390	871,100	(176,290)
State	2,378,847	2,378,847	2,011,600	(367,247)
Charges for services:				
Other insurance	199,750	199,750	208,453	8,703
Other service fees	175,100	175,100	222,473	47,373
Interest	84,640	84,640	73,227	(11,413)
Other revenues and reimbursements:				
Revenue contracts	4,200	4,200	43,579	39,379
Other	44,670	44,670	312,628	267,958
Total revenue	18,169,975	18,169,975	17,030,902	(1,139,073)
Expenditures				
Health and welfare:				
Personnel costs	8,185,010	8,185,010	7,816,704	368,306
Operating costs	10,147,405	10,094,905	9,535,616	559,289
Capital outlay	47,500	100,000	92,293	7,707
Total expenditures	18,379,915	18,379,915	17,444,613	935,302
Revenue over (under) expenditures	(209,940)	(209,940)	(413,711)	(203,771)
Other financing sources				
Transfer in - county appropriation	209,940	209,940	209,942	2
Net changes in fund balance	-	-	(203,769)	(203,769)
Fund balance, beginning of year, as restated	837,907	837,907	837,907	-
Fund balance, end of year	\$ 837,907	\$ 837,907	\$ 634,138	\$ (203,769)

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

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Net Assets
Internal Service Funds**

September 30, 2007

Current assets	
Cash and cash equivalents	\$ 571,169
Prepaid items	<u>7,565</u>
Total assets	<u>578,734</u>
Current liabilities	
Accrued self-insurance claims	135,318
Accrued compensated absences	<u>314,801</u>
Total liabilities	<u>450,119</u>
Net assets - unrestricted	<u><u>\$ 128,615</u></u>

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

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Revenue, Expenses and Changes in Fund Net Assets
Internal Service Funds**

For the Year Ended September 30, 2007

Operating revenue	
Charges for services	<u>\$ 1,176,333</u>
Operating expenses	
Claims	775,108
Management fees	134,592
Insurance premiums	152,495
Personnel costs	<u>-</u>
Total operating expenses	<u>1,062,195</u>
Operating income	114,138
Nonoperating income	
Interest	<u>8,981</u>
Change in net assets	123,119
Net assets, beginning of year	<u>5,496</u>
Net assets, end of year	<u><u>\$ 128,615</u></u>

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

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Cash Flows
Internal Service Funds**

For the Year Ended September 30, 2007

Cash flows from operating activities	
Receipts from other funds	\$ 1,132,106
Claims paid	(795,823)
Payments to insurance companies	(287,087)
Payments to employees for services	<u>(6,338)</u>
Net cash provided by operating activities	42,858
Cash flows from investing activities	
Interest income	8,981
Cash and cash equivalents, beginning of year, as restated	<u>519,330</u>
Cash and cash equivalents, end of year	<u><u>\$ 571,169</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 114,138
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in assets and liabilities which provided (used) cash:	
Due from other funds	54,383
Prepaid items	15,532
Accrued self-insurance claims	(36,247)
Unearned revenue	(98,610)
Accrued compensated absences	<u>(6,338)</u>
Net cash provided by operating activities	<u><u>\$ 42,858</u></u>

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

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Allegan County Community Mental Health Board (the “Board”) was created by resolution of the Allegan County Board of Commissioners pursuant to Act 54 of the Public Acts of 1963, as amended. The Board, which is composed of certain elected County officials and other individuals, is responsible for serving the mental health needs of Allegan County residents in accordance with its full management contract with the Michigan Department of Community Health (MDCH) and the Michigan Mental Health Code.

Reporting Entity – These financial statements represent the financial condition and the results of operations of a special revenue fund and an internal service fund of Allegan County, Michigan (the “County”) and are an integral part of that reporting entity. The Board is not a component unit of Allegan County or 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 - The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Allegan County Community Mental Health Board. For the most part, the effect of interfund activity has been removed from these statements.

A separate column is presented for the special revenue fund (major fund) on the statement of net assets and governmental funds balance sheet and statement of activities and governmental fund revenues, expenditures and changes in fund balance. This separate column takes the place of the government funds financial statement presentation. This alternative method of presenting major fund information is utilized because only one major fund (special revenue fund) is utilized by the Board. The statement of net assets, statement of revenues, expenses and changes in fund net assets and statement of cash flows present the internal service fund.

Governmental Activities

Special Revenue Fund – The Special Revenue Fund is the Board’s primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in another fund.

Internal Service Funds – The Self-Insurance and Vacation Reserve Fund account for activities which provide health insurance, medical reimbursements and compensated absences to all qualified employees.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

Intergovernmental revenue, charges for services and other revenue associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are generally 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.

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 internal service fund are charges to the special revenue fund for insurance services. Operating expenses for internal service funds include the cost of claims, administration, and reinsurance. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents – The Board's cash consists of cash on hand, demand deposits and deposits with the Allegan County Treasurer.

Receivables – Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements under the terms of its full management contract and from other agencies, governments and organizations for services rendered. Amounts receivable under the full management contract are subject to a cost settlement process and, as such, provision has been made by the Board for adjustments as estimated by management.

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 are not capitalized in the special revenue fund used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in the special revenue fund.

Capital assets, which include office equipment and vehicles, are reported in the government wide financial statements. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. 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>
Equipment	3-7
Vehicles	5

Budgetary Accounting – The Board's special revenue fund is under formal budgetary control and follows both the County and MDCH's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with generally accepted accounting principles and the requirements of the MDCH.

Transfer In-County Appropriation

This transfer represents a subsidy provided by the County as a local match for various services.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Board's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a program basis. The approved budgets of the Board for these budgetary funds were adopted at the activity level within a function. There were no budgetary overages at the legal level of budgetary control.

3. CASH AND CASH EQUIVALENTS

Deposits

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>
Cash and cash equivalents	<u>\$2,831,632</u>

These deposits are in two (2) financial institutions located in Michigan. All accounts are in the name of the Board. They are recorded in the Board's records at fair value.

Deposit Risk

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. State law does not require and the Board does not have a policy for deposit custodial credit risk.

Deposits of the Board held by Allegan County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Board. All accounts are in the name of the Board and a specific fund or common account. They are recorded in the Board's records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

The Board is authorized by the governing body 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 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

- 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.

4. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Equipment	\$ 147,483	\$ -	\$ -	\$ 147,483
Vehicles	490,715	-	-	490,715
Total	638,198	-	-	638,198
Accumulated depreciation				
Equipment	129,963	41,953	-	171,916
Vehicles	299,596	21,920	-	321,516
Total	429,559	63,873	-	493,432
Capital assets, net	\$ 208,639	\$ 63,873	\$ -	\$ 144,766

Depreciation is reported in the statement of activities as a component of Health and Welfare operating costs.

5. PENSION PLANS

Allegan County Community Mental Health Board maintains both a defined benefit plan and a defined contribution plan for its eligible employees. New employees have the option of participating in the defined contribution plan. Individuals employed before the defined contribution plan was in effect were offered the opportunity to convert to the defined contribution plan.

Defined Benefit Plan

Plan Description – The Board’s defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Board participates along with Allegan County in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

Funding Policy - The Board is required to contribute at an actuarially determined rate; the current rate is 0.0% of annual covered payroll. Employees are also required to contribute 4.0%. The contribution requirements of the Board are established, and may be amended, by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Board, depending on the MERS contribution program adopted by the Board.

Annual Pension Cost - During the year ended September 30, 2007, the Board made no contributions to the plan, which is based on actuarial projections of funding requirements. Employee contributions for the same period were \$12,307.

Additional historical information is not available for the Boards' participation in MERS because a separate actuarial valuation has not been completed. The actuarial data is included in Allegan County's valuation.

Defined Contribution Plan

The Board's defined contribution plan is offered through MERS and administered by ICMA. Benefit provisions and contribution requirements are established and may be amended by Allegan County Community Mental Health Board. The Board makes contributions of 4% of each participant's salary and will match 100% up to an additional 2% of salary. Employees may make voluntary contributions up to 17% of their salary. The covered payroll for the plan was approximately \$5,114,000. Total contributions for the year ended September 30, 2007, were \$423,288 (\$127,454 employee and \$295,834 employer; 2.4 percent and 5.8 percent of covered payroll, respectively).

6. SELF-INSURANCE PROGRAMS

The Board provides health, dental, long-term disability, short-term disability, and life insurances to all its eligible employees through the Self-Insurance Internal Service Fund. The self-insured programs are administered by a third-party administrator who provides claims review and process services as well as illustrated premium rates, which are anticipated, over time, to approximate the actual cost of benefits.

Premiums for self-insured programs are paid into the internal service fund based on actual or illustrated rates. These premiums are available to pay claims, claim reserves, excess coverage and administrative costs. Excess coverage insurance purchased by the Board covers individual claims in excess of \$40,000 annually, subject to an aggregate lifetime limitation of \$1,000,000 for medical claims only. The liability at the end of the year is based on claims already incurred and reported as well as an estimate for claims incurred but not reported at September 30, 2007.

The change in the claims liability for the years ended September 30, 2006 and 2007 is as follows:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2006	\$ 116,765	\$ 1,184,841	\$ 1,130,041	\$ 171,565
2007	171,565	775,108	811,355	135,318

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

7. CONCENTRATIONS AND ECONOMIC DEPENDENCY

Approximately 94% of total revenue and 40% of total accounts receivable are amounts, either directly or indirectly, paid by or due from the Michigan Department of Community Health.

8. LITIGATION

In the normal course of its activities, the Board has become a party in various legal actions. Management of the Board is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Board and, therefore, has not reflected loss reserves in the financial statements.

9. RESTATEMENT

Effective October 1, 2006, the Board transferred \$321,139 previously reported in the special revenue fund to establish the Vacation Reserve internal service fund, and began accounting for its accumulated compensated absences in that fund. Inasmuch as this liability was previously reported in the government-wide financial statements, the restatement was limited to an increase to fund balance of the special revenue fund of \$321,139.

* * * * *

COMBINING STATEMENTS

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Combining Statement of Net Assets
Internal Service Funds**

September 30, 2007

	Self Insurance Fund	Vacation Reserve Fund	Total
Current assets			
Cash and cash equivalents	\$ 256,368	\$ 314,801	\$ 571,169
Prepaid items	7,565	-	7,565
Total assets	<u>263,933</u>	<u>314,801</u>	<u>578,734</u>
Current liabilities			
Accrued self-insurance claims	135,318	-	135,318
Accrued compensated absences	-	314,801	314,801
Total liabilities	<u>135,318</u>	<u>314,801</u>	<u>450,119</u>
Net assets - unrestricted	<u>\$ 128,615</u>	<u>\$ -</u>	<u>\$ 128,615</u>

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Combining Statement of Revenue, Expenses and Changes in Fund Net Assets
Internal Service Funds**

For the Year Ended September 30, 2007

	Self- Insurance Fund	Vacation Reserve Fund	Total
Operating revenue			
Charges for services	\$ 1,176,333	\$ -	\$ 1,176,333
Operating expenses			
Claims	775,108	-	775,108
Management fees	134,592	-	134,592
Insurance premiums	152,495	-	152,495
Personnel costs	-	-	-
Total operating expenses	1,062,195	-	1,062,195
Operating income	114,138	-	114,138
Nonoperating income			
Interest	8,981	-	8,981
Change in net assets	123,119	-	123,119
Net assets, beginning of year	5,496	-	5,496
Net assets, end of year	\$ 128,615	\$ -	\$ 128,615

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Combining Statement of Cash Flows
Internal Service Funds**

For the Year Ended September 30, 2007

	Self- Insurance Fund	Vacation Reserve Fund	Total
Cash flows from operating activities			
Receipts from other funds	\$ 1,132,106	\$ -	\$ 1,132,106
Claims paid	(795,823)	-	(795,823)
Payments to insurance companies	(287,087)	-	(287,087)
Payments to employees for services	-	(6,338)	(6,338)
Net cash provided by (used in) operating activities	49,196	(6,338)	42,858
Cash flows from investing activities			
Interest income	8,981	-	8,981
Cash and cash equivalents, beginning of year, as restated	198,191	321,139	519,330
Cash and cash equivalents, end of year	\$ 256,368	\$ 314,801	\$ 571,169
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 114,138	\$ -	\$ 114,138
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Changes in assets and liabilities which provided (used) cash:			
Due from other funds	54,383	-	54,383
Prepaid items	15,532	-	15,532
Accrued self-insurance claims	(36,247)	-	(36,247)
Unearned revenue	(98,610)	-	(98,610)
Accrued compensated absences	-	(6,338)	(6,338)
Net cash provided by (used in) operating activities	\$ 49,196	\$ (6,338)	\$ 42,858

SINGLE AUDIT SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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 25, 2008

To the Allegan County Community
Mental Health Board
Allegan, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Allegan County Community Mental Health Board (the "Board"), a special revenue fund and two internal service funds of Allegan County, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Board's financial statements as listed in the table of contents and have issued our report thereon dated March 25, 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 Allegan County Community Mental Health Board'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 Allegan County Community Mental Health Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Allegan County Community Mental Health Board's internal control over financial reporting.

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. However, as discussed in the schedule of findings and questioned costs, 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 finding 2007-1 as described in the accompanying schedule of findings and questioned costs 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 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 and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allegan County Community Mental Health Board'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*.

The Board'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 Board's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board, 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, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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

March 25, 2008

To the Allegan County Community
Mental Health Board
Allegan, Michigan

Compliance

We have audited the compliance of Allegan County Community Mental Health Board (the "Board"), Allegan County, Michigan, 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. The Board's major federal programs are identified in the summary of auditor's 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 Board's management. Our responsibility is to express an opinion on the Board'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 Board'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 Board's compliance with those requirements.

In our opinion the Board 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, 2007.

Internal Control Over Compliance

The management of Allegan County Community Mental Health Board 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 Allegan County Community Mental Health Board'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 Allegan County Community Mental Health Board'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 financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Allegan County Community Mental Health Board, a special revenue fund and two internal service funds of Allegan County, Michigan, as of and for the year ended September 30, 2007 and have issued our report thereon dated March 25, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Allegan County Community Mental Health Board'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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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



Allegan County Community Mental Health Board
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Passed-through Michigan Department of Community Health: Supportive Housing Program	14.235	\$ 57,998
HUD Grant	14.xxx	<u>63,404</u>
Total U.S. Department of Housing and Urban Development		<u>121,402</u>
U.S. Department of Health and Human Services		
Passed-through Michigan Department of Community Health: Projects for Assistance in Transition from Homelessness (PATH)	93.150	41,413
PATH Supportive Services	93.150	<u>24,919</u>
		<u>66,332</u>
Developmental Disabilities Basic Support and Advocacy Grants: Community Employment	93.630	70,427
Housing Unlimited	93.630	66,937
Creating Meaningful Lives	93.630	<u>30,000</u>
		<u>167,364</u>
Community Mental Health Services Block Grant: Anti-Stigma	93.958	4,358
Wrap-around Respite Grant	93.958	50,000
Wrap-around - Older Adults	93.958	55,036
Drop In Center Enhancement	93.958	9,200
School Based Serv. - Early Risers Program	93.958	61,705
Hispanic Services	93.958	66,858
Juvenile Justice Diversion Project	93.958	<u>50,000</u>
		<u>297,157</u>
Substance Abuse Prevention and Treatment Block Grant: Substance Abuse Block Grant - Hispanic	93.959	9,783
SA Shelter Plus Care	93.959	<u>14,563</u>
		<u>24,346</u>
Wrap-around - SF/SC	93.956	13,760
OBRA/PSARR	93.778	<u>69,998</u>
Passed-through Michigan Department of Human Services: Promoting Safe and Stable Families	93.556	<u>2,608</u>
Passed-through Lakeshore Coordinating Council: Substance Abuse Block Grant	93.959	90,845
Methamphetamine Prevention	93.959	<u>17,288</u>
		<u>108,133</u>
Total U.S. Department of Health and Human Services		<u>749,698</u>
Total expenditures of federal awards		<u><u>\$ 871,100</u></u>

The above schedule includes the federal grant activity of the Allegan County Community Mental Health Board 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 financial statements.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: *Unqualified on financial statements*

Internal controls over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) 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 deficiency(ies) identified not considered to be material weaknesses? x yes x none reported

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

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

Identification of Major Programs

CFDA Number

Name of Federal Program or Cluster

	U.S. Department of Health and Human Services:
93.958	Community Mental Health Services Block Grant
93.630	Developmental Disabilities Basic Support and Advocacy Grants

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

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

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government'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 government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government 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 government 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 the best interests of the government 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.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

In 2006, the Board charged salary costs to its major federal programs without sufficient documentation as required by OMB Circular A-87. This finding has been corrected for the year ended September 30, 2007.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

March 25, 2008

To the Board of Directors of the
Allegan County Community Mental Health Board
Allegan, Michigan

We have audited the financial statements of Allegan County Community Mental Health Board for the year ended September 30, 2007, and have issued our report thereon dated March 25, 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 September 4, 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 Allegan County Community Mental Health Board'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 Allegan County Community Mental Health Board'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 Allegan County Community Mental Health Board'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 Allegan County Community Mental Health Board's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Allegan County Community Mental Health Board'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 Allegan County Community Mental Health Board 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 Allegan County Community Mental Health Board 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:

- The allowance for doubtful accounts is estimated based on prior experience with collections.
- 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 liability for uninsured risks of loss, including incurred but not reported claims, which are accounted for in the Board's internal service funds and for which the Board utilizes the services of an independent third-party risk management consultant to estimate the liability.

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 Allegan County Community Mental Health Board'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 Allegan County Community Mental Health Board, either individually or in the aggregate, indicate matters that could have a significant effect on Allegan County Community Mental Health Board'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 Allegan County Community Mental Health Board’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".

Allegan County Community Mental Health Board

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of Allegan County Community Mental Health Board 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 Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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 Board'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.

Other Matters

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Board's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the organization's unique circumstances.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of an organization's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Board's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Board's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

Allegan County Community Mental Health Board

Comments and Recommendations

For the Year Ended September 30, 2007

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. However we did note the following specific item, which we would like to highlight:

- **Approval of payroll register prior to payment**

During our review of the Board's internal controls over payroll processing, we noted that there is no supervisory approval of the payroll register prior to checks being issued. Furthermore, pay rates can be changed and employees added to the system without supervisory approval. Accordingly, if any inappropriate changes were made to the payroll system, it is possible that such changes might not be discovered by management on a timely basis. We recommend that an edit report be prepared for review by an administrator each pay period that lists any changes made to employees or pay rates since the last payroll.

Off-Books Cash Accounts

During our audit of the Board's cash accounts, we noted that two small accounts (used for client funds and employee flexible spending accounts) are not recorded on the general ledger. While these accounts do not represent available resources of the Board, the cash accounts are nevertheless assets in the Board's keeping, and should be recorded in the accounting system. Each account would then be offset by a fiduciary liability, indicating the parties for whom the cash is held.

Budget Approval Prior to Fiscal Year

It is required the CMH approve their annual budget prior to commencement of their fiscal year. While the CMH is an agency of the County, and the County has their budget approved prior to the County's fiscal year, the approval is after the start of the CMH's fiscal year. Correspondence with the Michigan Department of Treasury indicates that the CMH should have a separate public hearing and approval for their budget prior to the beginning of their fiscal year.

Self Insurance Fund Activity

For the past several years, the Board has accounted for the activity of its Self-Insurance Internal Service Fund in a spreadsheet, apart from the County's general ledger. While this method does ultimately provide for sufficient detail for the Board to be able to prepare financial statements for the audit, it adds an additional layer of complexity, and increases the risk of errors. We have previously recommended that the Self-Insurance fund be formally integrated into the general ledger and accounted for in the same manner as the general fund. We understand that this has now occurred, and would like to commend management for taking this action.

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