

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 North County Community Mental Health		County Emmet	
Fiscal Year End September 30, 2007		Opinion Date March 28, 2008		Date Audit Report Submitted to State March 31, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

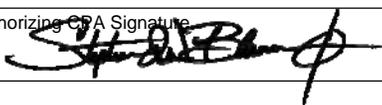
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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 type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson			Telephone Number (616) 975-4100	
Street Address 2330 East Paris Ave. SE			City Grand Rapids	State MI
			Zip 49546	
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801



**NORTH COUNTRY
COMMUNITY MENTAL HEALTH**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007



REHMANN ROBSON

Certified Public Accountants

NORTH COUNTRY COMMUNITY MENTAL HEALTH

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

March 28, 2008

To the Board of Directors of
North Country Community Mental Health
Petoskey, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of ***North Country Community Mental Health*** (the "Authority"), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North Country 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 North Country Community Mental Health Authority, as of September 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2008, on our consideration of North Country 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.

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

NORTH COUNTRY COMMUNITY MENTAL HEALTH

Statement of Net Assets

September 30, 2007

	<u>Enterprise Funds</u>		<u>Internal Service Fund</u>	<u>Eliminations</u>	<u>Total Business- type Activities</u>
	<u>Provider</u>	<u>Affiliation</u>	<u>Risk Reserve</u>		
Assets					
Current assets:					
Cash and cash equivalents	\$ 3,483,345	\$ 948,722	\$ -	\$ -	\$ 4,432,067
Restricted cash and cash equivalents	629,679	-	3,025,222	-	3,654,901
Accounts receivable	604,254	19,007	-	-	623,261
Due from State	-	242,139	-	-	242,139
Due from affiliates	3,489	319,786	-	-	323,275
Due from counties	82,550	-	-	-	82,550
Due from other funds	720,265	493,801	-	(1,214,066)	-
Prepaid items	311,931	3,454	-	-	315,385
Total current assets	<u>5,835,513</u>	<u>2,026,909</u>	<u>3,025,222</u>	<u>(1,214,066)</u>	<u>9,673,578</u>
Non-current assets:					
Capital assets not being depreciated	590,586	36,100	-	-	626,686
Capital assets being depreciated, net	1,347,430	46,847	-	-	1,394,277
Total non-current assets	<u>1,938,016</u>	<u>82,947</u>	<u>-</u>	<u>-</u>	<u>2,020,963</u>
 Total assets	 <u>7,773,529</u>	 <u>2,109,856</u>	 <u>3,025,222</u>	 <u>(1,214,066)</u>	 <u>11,694,541</u>
Liabilities					
Current liabilities:					
Accounts payable	1,747,728	611,243	-	-	2,358,971
Accrued liabilities	171,313	102,112	-	-	273,425
Due to State	-	34,044	-	-	34,044
Due to other funds	746,576	104,259	363,231	(1,214,066)	-
Unearned revenue	397,580	1,237,558	-	-	1,635,138
Current portion of long-term debt	130,300	-	-	-	130,300
Total current liabilities	<u>3,193,497</u>	<u>2,089,216</u>	<u>363,231</u>	<u>(1,214,066)</u>	<u>4,431,878</u>
Non-current liabilities:					
Long-term debt, net of current portion	1,255,630	-	-	-	1,255,630
 Total liabilities	 <u>4,449,127</u>	 <u>2,089,216</u>	 <u>363,231</u>	 <u>(1,214,066)</u>	 <u>5,687,508</u>
Net assets					
Invested in capital assets, net of related debt	1,175,107	-	-	-	1,175,107
Restricted for Mental Health					
Code reserves	61,119	-	2,661,991	-	2,723,110
Unrestricted	2,088,176	20,640	-	-	2,108,816
 Total net assets	 <u>\$ 3,324,402</u>	 <u>\$ 20,640</u>	 <u>\$ 2,661,991</u>	 <u>\$ -</u>	 <u>\$ 6,007,033</u>

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

NORTH COUNTRY COMMUNITY MENTAL HEALTH
Statement of Revenue, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2007

	<u>Enterprise Funds</u>		<u>Internal Service Fund</u>	<u>Eliminations</u>	<u>Total Business- type Activities</u>
	<u>Provider</u>	<u>Affiliation</u>	<u>Risk Reserve</u>		
Operating revenue					
Medicaid	\$ 22,621,576	\$ 56,006,604	\$ -	\$(22,621,576)	\$ 56,006,604
State General Fund revenue	5,141,062	92,134	-	-	5,233,196
Reimbursements	172,256	831,196	-	(431,036)	572,416
Earned revenue	485,355	86,740	-	-	572,095
Grant revenue	708,897	71,366	-	-	780,263
Other revenue	97,514	791	-	-	98,305
Total operating revenue	<u>29,226,660</u>	<u>57,088,831</u>	<u>-</u>	<u>(23,052,612)</u>	<u>63,262,879</u>
Operating expenses					
Developmentally disabled:					
Program administration	315,693	-	-	-	315,693
State residential	113,692	-	-	-	113,692
Residential	10,556,433	-	-	-	10,556,433
Outpatient	893,946	-	-	-	893,946
Partial day	3,538,195	-	-	-	3,538,195
Case management	1,328,042	-	-	-	1,328,042
Mentally ill - adult:					
Program administration	216,810	-	-	-	216,810
State inpatient	467,959	-	-	-	467,959
Community inpatient	486,120	-	-	-	486,120
Residential	1,606,032	-	-	-	1,606,032
Outpatient	2,318,884	-	-	-	2,318,884
Partial day	921,680	-	-	-	921,680
Case management	881,256	-	-	-	881,256
Consumer operated	116,673	-	-	-	116,673
Assertive community treatment	800,571	-	-	-	800,571
Mentally ill - child:					
Program administration	95,632	-	-	-	95,632
State inpatient	110,548	-	-	-	110,548
Community inpatient	6,256	-	-	-	6,256
Residential	352,718	-	-	-	352,718
Outpatient	1,265,159	-	-	-	1,265,159
Case management	246,517	-	-	-	246,517
Psychiatric services	701,074	-	-	-	701,074
Other services	322,383	-	-	-	322,383
Board administration	2,342,345	-	-	-	2,342,345
Managed care operations	-	57,149,732	-	(23,052,612)	34,097,120
Total operating expenses	<u>30,004,618</u>	<u>57,149,732</u>	<u>-</u>	<u>(23,052,612)</u>	<u>64,101,738</u>
Operating loss	<u>(777,958)</u>	<u>(60,901)</u>	<u>-</u>	<u>-</u>	<u>(838,859)</u>

continued...

NORTH COUNTRY COMMUNITY MENTAL HEALTH
Statement of Revenue, Expenses, and Changes in Fund Net Assets (Concluded)
For the Year Ended September 30, 2007

	<u>Enterprise Funds</u>		<u>Internal</u>	<u>Eliminations</u>	<u>Total</u>
	<u>Provider</u>	<u>Affiliation</u>	<u>Service Fund</u>		
			<u>Risk</u>		<u>Business-</u>
			<u>Reserve</u>		<u>type</u>
					<u>Activities</u>
Non-operating revenue (expenses)					
Interest revenue	\$ 263,927	\$ 60,134	\$ 148,384	\$ -	\$ 472,445
Interest expense	(25,892)	-	-	-	(25,892)
Loss on disposal of capital assets	(1,000)	-	-	-	(1,000)
County contributions	657,266	-	-	-	657,266
Abatement of General Fund risk reserve	(320,913)	-	-	-	(320,913)
Total non-operating revenue	573,388	60,134	148,384	-	781,906
Net (loss) income before transfers	(204,570)	(767)	148,384	-	(56,953)
Transfers in	363,231	-	-	(363,231)	-
Transfers out	-	-	(363,231)	363,231	-
Change in net assets	158,661	(767)	(214,847)	-	(56,953)
Net assets, beginning of year, as restated	3,165,741	21,407	2,876,838	-	6,063,986
Net assets, end of year	\$ 3,324,402	\$ 20,640	\$ 2,661,991	\$ -	\$ 6,007,033

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

NORTH COUNTRY COMMUNITY MENTAL HEALTH
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2007

	<u>Enterprise Funds</u>		<u>Internal Service Fund</u>
	<u>Provider</u>	<u>Affiliation</u>	<u>Risk Reserve</u>
Cash flows from operating activities			
Cash received from providing services	\$ 28,267,412	\$ 57,460,014	\$ -
Cash received from interfund services	-	-	334,418
Cash payments to suppliers and affiliates	(28,637,216)	(47,109,207)	-
Cash payments for personnel services	(1,017,969)	(10,220,201)	-
Net cash (used in) provided by operating activities	<u>(1,387,773)</u>	<u>130,606</u>	<u>334,418</u>
Cash flows from noncapital financing activities			
Transfers in	363,231	-	-
Transfers out	-	-	(363,231)
County Contributions	657,266	-	-
Abatement of General Fund risk reserve	(320,913)	-	-
Net cash provided by (used in) noncapital financing activities	<u>699,584</u>	<u>-</u>	<u>(363,231)</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	(478,041)	(52,516)	-
Proceeds from long-term debt	214,137	-	-
Principal payments	(25,070)	-	-
Interest payments	(25,892)	-	-
Net cash used by capital and related financing activities	<u>(314,866)</u>	<u>(52,516)</u>	<u>-</u>
Cash flows from investing activities			
Interest received	<u>263,927</u>	<u>60,134</u>	<u>148,384</u>
(Decrease) increase in cash and cash equivalents	(739,128)	138,224	119,571
Cash and cash equivalents, beginning of year	<u>4,852,152</u>	<u>810,498</u>	<u>2,905,651</u>
Cash and cash equivalents, end of year	<u>\$ 4,113,024</u>	<u>\$ 948,722</u>	<u>\$ 3,025,222</u>
Cash and cash equivalents are classified as follows on the statement of net assets:			
Cash and cash equivalents	\$ 3,483,345	\$ 948,722	\$ -
Restricted cash and cash equivalents	<u>629,679</u>	<u>-</u>	<u>3,025,222</u>
	<u>\$ 4,113,024</u>	<u>\$ 948,722</u>	<u>\$ 3,025,222</u>

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NORTH COUNTRY COMMUNITY MENTAL HEALTH
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended September 30, 2007

	<u>Enterprise Funds</u>		<u>Internal Service Fund</u>
	<u>Provider</u>	<u>Affiliation</u>	<u>Risk Reserve</u>
Reconciliation of operating loss to net cash (used in) provided by operating activities			
Operating loss	\$ (777,958)	\$ (60,901)	\$ -
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:			
Depreciation expense	176,587	68,048	-
Changes in assets and liabilities:			
Accounts receivable	(244,337)	(2,999)	-
Due from State	-	(244,990)	-
Due from affiliates	40,294	441,400	-
Due from counties	211,278	-	-
Due from other funds	(674,295)	69,266	-
Prepaid items	(43,931)	14,179	-
Accounts payable	(44,218)	(452,329)	-
Accrued liabilities	12,009	86,167	-
Accrued compensated absences	82,633	-	-
Due to State	(292,476)	34,044	-
Due to other funds	166,353	104,259	334,418
Unearned revenue	288	74,462	-
Net cash (used in) provided by operating activities	<u>\$ (1,387,773)</u>	<u>\$ 130,606</u>	<u>\$ 334,418</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.

NORTH COUNTRY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Country Community Mental Health (the “Authority”) is a multi-county governmental authority serving the Counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska and Otsego, located in northern Michigan. The Authority provides community services to consumers diagnosed with severe mental illnesses, developmental disabilities, and/or substance abuse conditions. Services provided by the Authority include inpatient treatment, residential services, case management, outpatient treatment, employment, and prevention services. The Authority operates under a 14-member Board of Directors.

In addition, the Authority operates as the Prepaid Inpatient Health Plan (PIHP) for the Northern Affiliation, which includes North County CMH, AuSable Valley CMH, and Northeast Michigan CMH. The Authority maintains separate accountability over its operations as a provider from the operations of the affiliation.

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 major funds are reported in separate columns in the aforementioned financial statements.

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

The *Provider* enterprise fund is the main operating fund of the Authority. It is used to account for the proceeds of revenue sources legally restricted for mental health activities.

The *Affiliation* enterprise fund negotiates with the Michigan Department of Community Health for the Northern Affiliation’s Medicaid contract. It is used to account for the receipt and distribution of State-contracted Medicaid revenues on behalf of the Northern Affiliation’s members.

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). Pursuant to these contractual provisions, the Authority’s risk management plan has been submitted to 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.

NORTH COUNTRY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

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.

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 and demand deposits. Restricted cash and cash equivalents represent amounts held in reserve accounts as authorized by the State of Michigan Mental Health Code.

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. The allowance was approximately \$262,000 at September 30, 2007.

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, equipment, and vehicles, are capitalized and reported in the 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 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	8-25
Furniture and equipment	3-10
Vehicles	4

Compensated Absences – All full-time employees accrue vacation benefits dependent on years of service with the Authority. Part-time regular employees are entitled to annual leave with pay in proportion to the number of hours they are hired to work per week. Employees are compensated for any unused hours in excess of 240 at the end of each year. Upon termination, employees are paid for all earned but unused time.

NORTH COUNTRY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

2. CASH AND CASH EQUIVALENTS

Deposits

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

Cash and cash equivalents	\$ 4,432,067
Restricted cash and cash equivalents	<u>3,654,901</u>
	<u>\$ 8,086,968</u>

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

Checking and savings accounts	\$ 7,383,214
Certificates of deposit (due within one year)	701,084
Petty cash	<u>2,670</u>
	<u>\$ 8,086,968</u>

Deposit Risk

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, \$8,216,725 of the Authority's bank balance of \$8,616,725 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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.

NORTH COUNTRY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

3. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 147,500	\$ 35,000	\$ -	\$ 182,500
Construction in progress	-	444,186	-	444,186
Total capital assets not being depreciated	<u>147,500</u>	<u>479,186</u>	<u>-</u>	<u>626,686</u>
Capital assets being depreciated				
Vehicles	694,717	16,384	(19,252)	691,849
Computer equipment	372,264	9,293	-	381,557
Furniture and fixtures	353,641	9,737	-	363,378
Residential homes and improvements	1,219,661	15,957	-	1,235,918
Total capital assets being depreciated	<u>2,640,283</u>	<u>51,371</u>	<u>(19,252)</u>	<u>2,672,402</u>
Accumulated depreciation				
Vehicles	403,069	86,502	(18,252)	471,319
Computer equipment	240,864	79,680	-	320,544
Furniture and fixtures	233,453	25,390	-	258,843
Residential homes and improvements	174,356	53,063	-	227,419
Total accumulated depreciation	<u>1,051,742</u>	<u>244,635</u>	<u>(18,252)</u>	<u>1,278,125</u>
Capital assets being depreciated, net	<u>1,588,541</u>	<u>(193,264)</u>	<u>(1,000)</u>	<u>1,394,277</u>
Capital assets, net	<u>\$ 1,736,041</u>	<u>\$ 285,922</u>	<u>\$ (1,000)</u>	<u>\$ 2,020,963</u>

NORTH COUNTRY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

4. LONG-TERM DEBT

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

	Balance 10/1/2006	Additions	Deletions	Balance 9/30/2007	Due within One Year
Promissory note payable to a bank with monthly payments of \$1,725, including interest at 3.75%; balance of principal due at maturity in July 2014.	\$ 254,194	\$ -	\$ 11,174	\$ 243,020	\$ 11,246
Promissory note payable to a bank with monthly payments of \$2,156, including interest at 3.77%; balance of principal due at maturity in July 2013.	319,648	-	13,896	305,752	14,339
Construction loan to a bank with interest payable at 4.18%, converting in March 2008 to a term note with a 20-year amortization and a balloon payment due in March 2013.	-	214,137	-	214,137	11,262
Subtotal	573,842	214,137	25,070	762,909	36,847
Compensated absences	540,388	82,633	-	623,021	93,453
Total long-term debt	<u>\$1,114,230</u>	<u>\$ 296,770</u>	<u>\$ 25,070</u>	<u>\$ 1,385,930</u>	<u>\$ 130,300</u>

The annual requirements to maturity on long-term debt (excluding compensated absences) at September 30, 2007 are as follows:

Year Ended	Principal	Interest
2008	\$ 36,847	\$ 29,104
2009	49,634	35,698
2010	51,311	34,021
2011	53,047	32,284
2012	54,796	30,536
2013-2014	<u>517,274</u>	<u>21,016</u>
Total	<u>\$ 762,909</u>	<u>\$ 182,659</u>

NORTH COUNTRY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

5. LEASES

The Authority is party to numerous operating leases, for which aggregate rental expense was \$1,048,561.

The following is a schedule of future minimum lease payments required under the operating leases that have initial or remaining terms as of September 30, 2007:

<u>September 30,</u>	
2008	\$ 569,407
2009	363,139
2010	170,167
2011	76,577
2012	<u>21,780</u>
Total	<u>\$1,201,070</u>

6. PENSION PLANS

The Authority provides 401(a) money purchase plans for both union and non-union employees who have met the respective employment requirements. Under the plans, the Authority and its non-union employees contribute 12.2% and 6.2% of qualified compensation, respectively. Contributions made by the Authority are fully vested immediately. The Authority contributes an amount up to 8.17% of qualified compensation of union employees. Contributions made by the Authority are fully vested after four years of service. Investment earnings forfeited by participants who terminate employment prior to becoming fully vested are used to reduce the Authority's annual contribution requirement. Total pension contributions for the year ended September 30, 2007 were \$501,192.

Additionally, the Authority provides a Deferred Compensation Plan and Trust under Section 457 of the Internal Revenue Code, which covers all employees meeting certain employment requirements. Participants may contribute any amount as permitted through the Plan. No contributions are made by the Authority.

7. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member in the Michigan Municipal Risk Management Authority ("MMRMA") for risk of loss relating to its property and general liability (except auto liability and vehicle physical damage).

The MMRMA is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the MMRMA is to administer a risk management fund, which provides members with loss protection for general and property liability. The Authority has joined with numerous other governmental agencies in Michigan as a participant in MMRMA's "State Pool". Members of the State Pool do not have individual self-insured retention amounts other than a \$500 deductible per occurrence of liability coverage and a \$250 deductible per occurrence of property coverage.

NORTH COUNTRY COMMUNITY MENTAL HEALTH

Notes to Financial Statements

State Pool members' limits of coverage (per occurrence) are \$5 million for liability and about \$350,000 for property. If a covered loss exceeds these limits or, if for any reason, MMRMA's resources are depleted, the payment of all unpaid losses is the sole obligation of the Authority.

The Authority carries commercial insurance for all other risks of loss including auto liability, vehicle physical damage, workers' compensation, liability and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

8. 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 been asserted as of September 30, 2007.

9. RESTRICTED NET ASSETS

The Authority reports restricted net assets for certain reserve accounts established pursuant to the State of Michigan Mental Health Code. As of September 30, 2007, restricted net assets was comprised as follows:

	<u>Building Fund</u>	<u>Compensated Absences</u>	<u>Risk Reserve</u>	<u>Total</u>
Restricted cash and cash equivalents	\$ 61,119	\$ 568,560	\$ 3,025,222	\$ 3,654,901
Less: related payables	-	568,560	363,231	931,791
Restricted net assets	<u>\$ 61,119</u>	<u>\$ -</u>	<u>\$ 2,661,991</u>	<u>\$ 2,723,110</u>

10. COMMITMENT / SUBSEQUENT EVENT

During the year ended September 30, 2007, the Authority entered into a construction loan of which the proceeds were used to acquire land and construct office space. The amount expended as of September 30, 2007 was \$214,137, equal to the outstanding draws on the construction loan at that date. Construction commitments at year-end totaled \$302,285. On March 1, 2008, the construction loan was refinanced into a twenty-year note payable in monthly installments of \$3,230, including interest at a variable rate based on the five-year Treasury note.

11. RESTATEMENT

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 in the prior year financial statements.

* * * * *



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 28, 2008

To the Board of Directors of
North Country Community Mental Health
Petoskey, Michigan

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of *North County 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 and have issued our report thereon dated March 28, 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 North Country 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 North Country Community Mental Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Country 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 the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of North Country Community Mental Health in a separate letter dated March 28, 2008.

This report is intended solely for the information and use of the Authority, management, the Board of Directors, others within the organization, 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 that reads "Lehmann Johnson".



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

March 28, 2008

To the Board of Directors of
North Country Community Mental Health
Petoskey, Michigan

We have audited the financial statements of North Country Community Mental Health for the year ended September 30, 2007, and have issued our report thereon dated March 28, 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 Government Auditing Standards

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.

As part of our audit, we considered the internal control of North Country Community Mental Health. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of North Country Community Mental Health's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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 North Country 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, except for a change in the presentation of the financial statements from governmental to enterprise fund reporting. We noted no transactions entered into by North Country 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 North Country 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 North Country Community Mental Health, either individually or in the aggregate, indicate matters that could have a significant effect on North Country 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 North Country 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". The signature is written in black ink and is positioned below the closing text.

North Country Community Mental Health

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of North Country 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 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.

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.

Off-books Bank Accounts

We noted that the Authority maintains an off-books checking account for the employees' section 125 cafeteria plan. We understand that this money is not available to fund the operations of the Authority. However, since the Authority exercises fiduciary control over, we recommend that the asset and related liability to employees be recorded in the Authority's records.

North Country Community Mental Health

Comments and Recommendations

For the Year Ended September 30, 2007

Independent Review of Bank Reconciliations

We noted that the Authority does not currently have a policy requiring independent review of monthly bank reconciliations. We recommend that an independent supervisor review and initial all bank reconciliations after they have been completed.

Approval of Payroll Register

The Authority does not currently require a final review and approval of the payroll register by an employee or administrator independent of the payroll preparation and check-printing process. We recommend that the Authority develop such a procedure and have the payroll register signed as evidence of this review.

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