Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Genesee County Community Mental Health	Genesee

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
September 30, 2007	March 31, 2008	April 3, 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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number
Rehmann Robson	248-952-5000

Street Address	City	State	Zip
5750 New King Street, Ste. 200	Troy	MI	48098

Authorizing CPA Signature	Printed Name	License Number
Thomas Darling, CPA Digitally signed by Thomas Darling, CPA DN: cn=Thomas Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2008.04.03 10:15:47 -04'00'	Thomas Darling, CPA	A246550

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Genesee County, Michigan

FINANCIAL STATEMENTS
AND SINGLE AUDIT
For the Year Ended
September 30, 2007

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Genesee County, Michigan

FINANCIAL STATEMENTS
AND SINGLE AUDIT
For the Year Ended September 30, 2007

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

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GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

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REHMANN ROBSON
Certified Public Accountants
A member of THE REHMANN GROUP
An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

March 31, 2008

The Board of Directors
Genesee County Community Mental Health Services
Flint, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of ***Genesee County Community Mental Health Services*** (the "Agency", a collection of funds of Genesee County, Michigan) as of and for the year ended September 30, 2007. These financial statements are the responsibility of the Genesee County Mental Health Services' 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 I, the financial statements present only the funds of Genesee County Community Mental Health Services and do not purport to, and do not present fairly the financial position of Genesee County, Michigan, as of September 30, 2007, and the changes in its financial position 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 Genesee County Community Mental Health Services as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison of the major fund, 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 31, 2008, on our consideration of Genesee County Community Mental Health Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-7 and the Schedule of Funding Progress on page 34 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genesee County Community Mental Health Services' financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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.

Rehmann Robson

Management's Discussion and Analysis

GENESEE COUNTY COMMUNITY MENTAL HEALTH AGENCY
Management's Discussion and Analysis
Fiscal Year October 1, 2006 – September 30, 2007

The Genesee County Community Mental Health Agency (GCCMH) (the "Agency") provides or directs integrated mental health, and physical health service programs for persons with severe and persistent mental illness (SMI), persons with developmental disabilities (DD) and persons needing treatment for substance abuse. The agency has been a provider of services for nearly 40 years. On October 1, 1998, GCCMH also became the designated Medicaid managed care administrator for Genesee County residents who are diagnosed SMI and/or DD. This unique dual responsibility has many challenges and benefits as the agency seeks to meet the independent regulatory obligations while presenting a seamless operation to our consumers and stakeholder.

The information provided within this Management's Discussion and Analysis is supplemental to the financial statements. It is not intended to replace the financial statements, nor does it provide contrary financial data. The analysis section of this summary will identify major issues of importance for anyone reviewing these financial statements.

FINANCIAL OVERVIEW

The financial structure of the Organization is based on fund accounting. Each fund represents the specific parameters within which financial decisions must be made. GCCMH had numerous grants with State funding that includes Medicaid, General Fund, MI Child, Substance Abuse and Adult Benefit Waiver. Each of the major funding separations includes restrictions and mandates as to how funds may be utilized in providing medically necessary services for the eligible populations.

GCCMH is allowed to maintain several Internal Service Funds. The first of those funds represents the reserves required by our state contract to ensure the availability of sufficient funds to cover necessary or mandated services when expenditures exceed revenues for a given fiscal year. The second fund is used to accumulate assets by charging funds for earned but unpaid employee compensated absences. And finally a post retiree health care fund is used to charge funds for actuarially determined health care obligation contributions. Within each fund, subsets of areas of responsibility are further delineated. This segregation of activities and objectives ensures and demonstrates compliance with financial requirements and regulatory restrictions.

The financial structure has also been designed to provide a financial presentation of the services provided by the Organization, including general outpatient services, state and community inpatient, licensed facilities, supported community living, substance abuse treatment and prevention, and special projects including both state and grant-supported activities.

Government-wide Financial Statements

The ***Statement of Net Assets*** presents the long-term financial status of the Organization's assets and liabilities for which, in the current year, there are capital assets subject to depreciation but no long-term debt amounts.

The ***Statement of Activities*** presents the financial data that resulted in a change to the net assets. This report presents a long-term view of the revenue and expense transactions that occurred during the current fiscal year period. The total change to the net assets resulting from the 2007 fiscal year activities is a decrease of $2,888,939. Of this total, $1,925,869 relates to Mental Health Services while $963,070 represents a decrease from internal service activities. Major activities include adult services, children's services, developmentally disabled services, substance abuse, managed care and administrative services.

Fund Financial Statements

The ***governmental funds financial statements*** are intended to provide an overview of the Organization's major areas of services. Funds are separated to maintain the integrity of the reporting and to meet all funding and regulatory restrictions on the allowable expenditure of each funding source.

Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the financial data provided in all financial statements. These notes are integral to the statements and should be reviewed in conjunction with the information included in the statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As seen below, total assets for the Agency amounted to $27,367,142. Total liabilities, which is composed mostly of payables and accrued liabilities, amounted to $11,681,103. The difference between the two is total net assets which decreased from prior year by $2,888,939.

	Governmental Activities	
	2007	**2006**
Assets		
Current and other assets	$ 26,457,700	$ 30,002,387
Capital assets, net	909,442	906,523
Total assets	**27,367,142**	**30,908,910**
Liabilities		
Payables and accrued liabilities	11,675,167	12,333,932
Unearned revenue	5,936	-
Total liabilities	**11,681,103**	**12,333,932**
Net assets		
Invested in capital assets	909,442	906,524
Restricted	12,223,578	14,260,069
Unrestricted	2,553,019	3,408,385
Total net assets	**$ 15,686,039**	**$ 18,574,978**

Statement of Activities

The ***Statement of Activities*** lists the major areas and sub-areas of services provided by the GCCMH.

Services provided at or on behalf of GCCMH can be segregated into three main categories. First the largest expense category within the GCCMH budget is services provided in residential settings (Adult Foster Care homes). The second largest expense category is Acute Care services (treatment facilities such as hospitals, crisis residential and State facilities). And third, the remainder of services falls within our community and home-based out patient programs.

By far, the greatest revenue source is the contract with the Michigan Department of Community Health, which includes Medicaid, Adult Benefit Waiver and General Funds, with the largest revenue source being Medicaid funding through special waiver provisions granted by the Federal Centers for Medicare and Medicaid Services. Other revenue sources include local funding from Genesee County, as well as income from fees, collections, and grants.

	Governmental Activities	
	2007	**2006**
Revenue		
Program revenues:		
Charges for services	$ 2,798,089	$ 3,591,665
Operating grants and contributions	6,980,329	4,361,863
General revenues:		
Medicaid	77,787,796	75,563,892
State general funds	19,596,676	21,847,312
Grants and contributions not restricted		
Substance abuse	2,373,928	2,291,164
County matching funds	3,184,568	3,029,943
Unrestricted investment earnings	1,114,151	820,797
Gain from sale of capital assets	16,453	-
Other expense	223,667	-
Other unrestricted grants and contributions	-	110,731
Total revenues	**114,075,657**	**111,617,367**
Expenses		
Board administration	15,179,898	17,009,890
Managed care	5,254,245	5,038,043
Adult services	38,005,550	38,993,726
Children's services	3,930,291	2,960,407
Developmentally disabled services	46,815,207	46,037,388
Substance abuse services	7,779,405	4,583,496
Total expenses	**116,964,596**	**114,622,950**
Change in net assets	(2,888,939)	(3,005,583)
Net assets, beginning of the year	18,574,978	21,580,561
Total net assets	**$ 15,686,039**	**$ 18,574,978**

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Balance Sheet – Governmental Funds

The *Balance Sheet for Governmental Funds* provides financial data for the major fund (Mental Health). The Internal Service Fund (ISF) data is not included here. The total assets, liabilities, and net assets for the Agency's major fund are as follows:

	Mental Health Fund
Total assets	$ 12,938,269
Total liabilities	10,385,250
Fund Balance	**$ 2,553,019**

Statement of Revenue, Expenditures, and Changes in Fund Balance—Governmental Funds

Mental Health expenditures exceeded revenues by $1,945,241 before other financing sources of $1,089,874. The decrease is primarily and historically due to the results of operations. As mentioned above, the Governmental Statements provide financial data relating to the Mental Health and do not include the Internal Service Funds.

The total amount of the unreserved fund balance is approximately 2% of the fiscal year 2007 total budgeted expenditures for Mental Health and Substance Abuse services. This amount, while not at the level preferred by similar organizations in the private sector (7-10%), does provide some financial protection. The majority of revenue is derived from State contracts and is highly dependent upon the State's budget.

Budgetary Highlight

The budget for any particular fiscal year is developed several months prior to notification of funding levels. The GCCMH Board reviews and approves a budget in September for an October 1st start date. Development of the annual budget begins in June, four months prior to its implementation. The funding levels from the State are often not received until after the start of a fiscal year. Especially during times of economic stress, these amounts are subject to change multiple times during the fiscal year.

The differences between the original and final budgets illustrate this uncertainty of funding, especially given the time frame for implementing the budget for the start of the fiscal year. Actual expenditures exceeded budgeted expenditures for adult, developmentally disabled, and substance abuse services in the amounts of $3,627,553, $1,052,697, and $285,228, respectively. These variances were primarily due to the increased volume of consumers and the increased level of care provided.

Capital Assets

The Agency investment in capital assets for its governmental activities as of September 30, 2007 amounted to $909,442 (net of accumulated depreciation). This investment in capital assets

includes building improvements, vehicles, and equipment. The total increase in the Agency's investment in capital assets for the current fiscal year was $2,919.

Factors Impacting the Future

The greatest impact to the Agency's future standing is the contract with the Michigan Department of Community Health. The funding levels from the State are in turn severely impacted by the State of Michigan's economy, potential Executive Order reductions issued by the Governor, and the approval of waiver provisions by the Centers of Medicare and Medicaid Services.

State funding formulas, the process for determining the allocation of Medicaid dollars to each CMH, have been changing every two years. Arbitrary indicators or assumptions, which are changed by the State, have the potential of causing swings in Medicaid appropriations from year to year. This practice further complicates the ability for long-term strategic planning and financial risk management.

Medicaid funding is dependent on the number of persons that meet Medicaid criteria. That number has risen in the past year, resulting in increased costs to the Medicaid system. It is projected that during fiscal year 2008 the agency will see a 5% increase of new clients.

The risk associated with managing the general fund has significantly increased with the State requirement to eliminate the General Fund Risk Reserve. Except under severe circumstances, our ability to maintain this fund has been eliminated. This has resulted in a more aggressive budget, that serves less clients while ensuring that expenditures for general fund dollars do not exceed revenue. There are also serious discussions occurring at the legislative level that would eliminate our ability to maintain a Medicaid Risk Reserve. Should this occur, the Agency would need to strengthen its ability to collect local funds through the PA 423 process.

One further restriction challenging our ability to manage medically necessary services is the inability to interchange funds among the consumer groups. Thus, Medicaid funding may not be utilized for services to non-Medicaid consumers.

Over the last year the Agency has been very successful with reducing both short-term and long-term staffing costs. The agency has eliminated guaranteed healthcare benefits for all new hires. New hire union employees are now in a defined contribution plan as opposed to a pension plan. Current employees have been given the option of converting their post retirement healthcare benefit into a defined contribution thus lowering current costs and long-term liability. In accordance with the requirements of GASB 45, a revised actuarial report will be completed with appropriate funding being placed in a newly created post retirement healthcare trust.

Requests for Information

This financial report is designed to provide a general overview of the finances of the Genesee County Community Mental Health Agency (a fund of Genesee County). Questions concerning this information may be directed to Jeffrey DeLay, Vice President of Business Operations, Genesee County Community Mental Health, 420 West Fifth Street, Flint, Michigan 48503.

Basic Financial Statements

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Net Assets

September 30, 2007

	Governmental Activities
Assets	
Cash and cash equivalents	$ 11,570,433
Investments	13,047,019
Accounts receivable	1,216,335
Prepaids and other assets	623,913
Depreciable capital assets, net	909,442
Total assets	**27,367,142**
Liabilities	
Accounts payable and accrued liabilities	11,675,167
Unearned revenue	5,936
Total liabilities	**11,681,103**
Net assets	
Invested in capital assets	909,442
Restricted for employee benefits	12,223,578
Unrestricted	2,553,019
Total net assets	**$ 15,686,039**

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Activities

For the Year Ended September 30, 2007

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue
Governmental activities:				
Board administration	$ 15,179,898	$ -	$ -	$ (15,179,898)
Managed care	5,254,245	235,638	-	(5,018,607)
Adult services	38,005,550	2,352,908	1,248,403	(34,404,239)
Children's services	3,930,291	64,485	930,411	(2,935,395)
Developmentally disabled services	46,815,207	145,058	-	(46,670,149)
Substance abuse services	7,779,405	-	4,801,515	(2,977,890)
Total governmental activities	**$ 116,964,596**	**$2,798,089**	**$ 6,980,329**	(107,186,178)
General revenues:				
MDCH Contract:				
Medicaid				77,787,796
General fund				19,596,676
Substance abuse				2,373,928
County matching funds				3,184,568
Unrestricted investment earnings				1,114,151
Gain from sale of capital assets				16,453
Other expense				223,667
Total general revenues				104,297,239
Change in net assets				(2,888,939)
Net assets, beginning of year				18,574,978
Net assets, end of year				**$ 15,686,039**

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Balance Sheet
Governmental Fund

September 30, 2007

	Mental Health
Assets	
Cash and cash equivalents	$ 9,586,732
Receivables:	
Due from the Michigan Department of Community Health	344,243
Due from other agencies and governments	468,383
Other receivables	272,023
Due from internal service funds	1,812,180
Prepaids	454,708
Total assets	**$ 12,938,269**
Liabilities	
Accounts payable	$ 8,124,410
Accrued liabilities	1,610,313
Due to the Michigan Department of Community Health	644,591
Deferred revenue	5,936
Total liabilities	10,385,250
Fund balance	
Reserved for prepaids	454,708
Unreserved, undesignated	2,098,311
Total fund balance	2,553,019
Total liabilities and fund balance	**$ 12,938,269**

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

September 30, 2007

Fund balance - governmental fund	$ 2,553,019
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: capital assets	2,473,965
Deduct: accumulated depreciation	(1,564,523)
Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods and for employee benefits. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in internal service funds	12,223,578
Net assets of governmental activities	**$15,686,039**

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Revenue, Expenditures, and Changes in Fund Balance Governmental Fund

For the Year Ended September 30, 2007

	Mental Health
Revenue	
Federal sources:	
Medicaid	$ 80,161,724
Federal grants	5,361,517
State sources:	
State general fund indigent	19,596,676
State grants	191,301
Local sources:	
County appropriations	3,184,568
Charges for services	2,471,250
PA 423 funding	326,839
Local grants and contributions	1,233,165
Interest revenue	25,102
Other revenue	418,029
Total revenue	112,970,171
Expenditures	
Mental health services:	
Board administration	14,583,440
Managed care	4,867,177
Adult services	37,449,510
Children's services	3,901,960
Developmentally disabled	46,361,339
Substance abuse services	7,751,986
Total expenditures	114,915,412
Excess of revenues under expenditures before other financing sources	(1,945,241)
Other financing sources	
Transfers in	1,073,421
Proceeds from sale of capital assets	16,453
Total other financing sources	1,089,874
Net change in fund balance	(855,367)
Fund balance, beginning of year	3,408,386
Fund balance, end of year	**$ 2,553,019**

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of the Governmental Fund to the Statement of Activities

For the Year Ended September 30, 2007

Net change in fund balance - governmental fund	$ (855,367)
Amounts reported for *governmental activities* in the statement of activities are different because:	
Governmental 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.	
Add: capital outlay	151,974
Deduct: depreciation expense	(149,055)
Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods, employee health care and accrued compensated absences. The net revenue (expense) of those funds are reported with governmental activities.	
Add: other nonoperating revenue from internal service funds	1,089,049
Deduct: net operating loss from internal service funds	(2,052,119)
Deduct: transfers from internal service funds	(1,073,421)
Change in net assets of governmental activities	**$ (2,888,939)**

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual Mental Health Fund

For the Year Ended September 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Federal sources:				
Medicaid	$ 80,093,380	$ 80,093,380	$ 80,161,724	$ 68,344
Federal grants	6,557,195	6,211,824	5,361,517	(850,307)
State sources:				
State general fund indigent	21,717,571	19,350,622	19,596,676	246,054
State grants	445,741	445,741	191,301	(254,440)
Local sources:				
County appropriations	2,600,000	2,600,000	3,184,568	584,568
Charges for services	2,737,866	2,810,179	2,471,250	(338,929)
PA 423 funding	750,000	750,000	326,839	(423,161)
Local grants and contributions	1,289,521	1,289,521	1,233,165	(56,356)
Interest revenue	-	-	25,102	25,102
Other revenue	60,566	37,580	418,029	380,449
Total revenue	116,251,840	113,588,847	112,970,171	(618,676)
Expenditures				
Mental health services:				
Board administration	24,485,672	16,427,746	14,583,440	1,844,306
Managed care	4,695,831	5,050,011	4,867,177	182,834
Adult services	33,536,044	33,821,957	37,449,510	(3,627,553)
Children's services	5,360,501	5,528,733	3,901,960	1,626,773
Developmentally disabled	41,890,003	45,308,642	46,361,339	(1,052,697)
Substance abuse services	7,466,758	7,466,758	7,751,986	(285,228)
Total expenditures	117,434,809	113,603,847	114,915,412	(1,311,565)
Excess of revenues under expenditures before other financing sources	(1,182,969)	(15,000)	(1,945,241)	(1,930,241)
Other financing sources				
Transfers in	-	-	1,073,421	1,073,421
Proceeds from sale of capital assets	15,000	15,000	16,453	1,453
Total other financing sources	15,000	15,000	1,089,874	1,074,874
Net changes in fund balances	(1,167,969)	-	(855,367)	(855,367)
Fund balance, beginning of year	3,408,386	3,408,386	3,408,386	-
Fund balance, end of year	**$ 2,240,417**	**$ 3,408,386**	**$ 2,553,019**	**$ (855,367)**

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Net Assets
Proprietary Funds

September 30, 2007

	Internal Service Funds
Current assets	
Cash and cash equivalents	$ 1,983,701
Investments	13,047,019
Interest receivable	111,568
Due from other county funds	20,118
Prepaids	169,205
Total current assets	**15,331,611**
Current liabilities	
Accounts payable	12,152
Accrued liabilities	1,283,701
Due to mental health fund	1,812,180
Total current liabilities	**3,108,033**
Net assets	
Restriced for employee benefits	**$ 12,223,578**

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Revenue, Expenses, and Changes in Fund Net Assets Proprietary Funds

For the Year Ended September 30, 2007

	Internal Service Funds
Operating revenue	
Charges for services	$ 264,156
Expenses	
Employee benefits	2,316,275
Net operating loss	(2,052,119)
Nonoperating revenue	
Interest revenue	1,089,049
Loss before transfers	(963,070)
Transfers out	(1,073,421)
Change in net assets	(2,036,491)
Net assets, beginning of year	14,260,069
Net assets, end of year	**$ 12,223,578**

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Cash Flows
Proprietary Funds

For the Year Ended September 30, 2007

	Internal Service Funds
Cash flows from operating activities	
Cash repaid for interfund services	$ (2,125,060)
Payments to suppliers	(2,302,375)
Payments to employees	(68,685)
Net cash used in operating activities	**(4,496,120)**
Cash flows used in non-capital financing activities	
Transfer to other funds	(5,450,079)
Cash flows from investing activities	
Sale of investments	9,889,193
Interest received	1,167,215
Net cash provided by investing activities	**11,056,408**
Increase in cash and cash equivalents	**1,110,209**
Cash and cash equivalents, beginning of year	873,492
Cash and cash equivalents, end of year	**$ 1,983,701**
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (2,052,119)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Prepaids	14,330
Accounts payable	(430)
Accrued liabilities	(68,685)
Due to mental health fund	(2,389,216)
Net cash used in operating activities	**$ (4,496,120)**

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.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Fiduciary Assets and Liabilities - Agency Funds

September 30, 2007

Assets	
Cash and cash equivalents	$ 260,523
Liabilities	
Accrued liabilities	$ 260,523

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Genesee County Community Mental Health Services (GCCMHS) (the "Agency"), a collection of funds of Genesee County, Michigan, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Agency. The Agency is considered a collection of funds of Genesee County, Michigan's governmental operation and is an integral part of that reporting entity. The Agency is not a component unit of Genesee County, Michigan or any other reporting entity, defined by GASB Statement No. 14, *The Financial Reporting Entity*.

B. 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 nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. However, the Agency Funds do not have a measurement focus. 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 Agency 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. Intergovernmental revenues are accrued when earned.

Service charges to first and third party payor and grant funds 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.

The Agency reports the following major governmental fund:

The Mental Health Special Revenue Fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund.

Additionally, the Agency reports the following fund types:

The internal service funds are used to account for and finance potential uninsured risks of loss related to various funding received through the Michigan Department of Community Health (MDCH), as well as for accounting for and financing post-employment health benefits and other selected retirement costs and employee benefits.

The agency fund is used to account for assets held on behalf of the Agency's consumers in which the Agency acts only in a fiduciary capacity.

Information has been provided in the notes to these financial statements and in a required supplementary information section to the financial statements in regards to the Agency's funded share of Genesee County's defined benefit pension plan. However, due to the pooled nature of the plan for all County pension trust transactions, a separate pension trust fund for the Agency is undeterminable and accordingly is not provided.

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.

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 government's internal service funds are charges to other funds for services provided. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

2. Statutory Authority

State statutes authorize the Agency to invest in:

a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

c. 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.

d. Bankers acceptances of United State's banks.

e. 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.

f. 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.

g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The agency's investment policy allows for all of these types of investments.

3. Accounts Receivable

Accounts receivable are shown net of an allowance for uncollectibles. Consumer accounts receivable and revenue are recorded when services are performed. A substantial portion of the Agency's receivables from services to consumers is received under contractual arrangements with Medicaid, Medicare and Michigan Blue Cross/Blue Shield programs, whereby the Agency is paid based on allowable costs incurred. The preliminary settlement of amounts due to the Agency is subject to redetermination upon audit by the applicable agency. An estimated provision is made for possible adjustments that may result from such reviews and any differences between the amounts accrued and amounts settled are recorded in operations in the period of settlement.

4. Interfund Receivables/Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

5. *Prepayments*

Payments made to vendors for services that will benefit periods beyond September 30, 2007, are recorded as "prepaids" in the accompanying statement of net assets.

6. *Capital Assets*

Capital assets, which include property, plant and equipment, are reported in the governmental activities columns in the government–wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Agency are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Vehicles and equipment	5-30
Building Improvements	15

7. *Contract with Michigan Department of Community Health*

The Agency has several account balances that relate to the Agency's contract with the Michigan Department of Community Health (MDCH). The amount reported as "Due from Michigan Department of Community Health" largely represents a receivable from the various grantor agencies for services provided under the contract for the year ended September 30, 2007. "Due to Michigan Department of Community Health" reflects amounts due to the State for clients of the Agency placed in state institutions and amounts owed back to the State as the result of the year end cost settlement.

8. Compensated Absences

The Agency provides four types of compensated absences – vacation, sick, personal and compensatory time. Vested or accumulated vacation leave and other compensated absences, for retirees and terminated employees, that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Agency employees are granted vacation, sick leave and other compensated absences in varying amounts based on length of service. Pay for compensated absences is accrued and fully vested when earned. Any amounts vested and not yet paid to employees are transferred to the Internal Service Fund where they are held until paid.

9. Use of Estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted in accordance with Michigan Law for the Agency's Special Revenue Fund. The budget is adopted on a basis consistent with GAAP and with the requirements of the Michigan Department of Community Health. Budget amounts are presented as amended by the Board of Directors. Amounts over budget at the legal level of control are presented on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual for the major special revenue fund.

B. Excess of Expenditures Over Appropriations

The Agency's budget is adopted on an activity basis. During the year ended September 30, 2007, the Agency incurred expenditures in excess of the amounts appropriated as follows:

	Final Budget	Actual	Variance
Mental Health Fund			
Adult Services	$ 33,821,957	$ 37,449,510	$ 3,627,553
Developmentally disabled	45,308,642	46,361,339	1,052,697
Substance abuse services	7,466,758	7,751,986	285,228

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of September 30, 2007:

Statement of Net Assets	
Cash and cash equivalents	$ 11,570,433
Investments	13,047,019
Statement of Fiduciary Net Assets	
Cash and cash equivalents	260,523
Total	**$ 24,877,975**
Deposits and Investments	
Bank deposits (checking and savings accounts)	$ 11,828,556
Investments in U.S. governmental securities or its agencies	13,047,019
Cash on hand	2,400
Total	**$ 24,877,975**

The Agency chooses to disclose its investments by specifically identifying each. As of year end, the Agency had the following investments:

Investment Type	Less than 1 year	1-5 Years	Total	Rating
Commercial Paper	$6,047,019	$ -	$ 6,047,019	Aa1
U.S. Agencies	-	7,000,000	7,000,000	AAA
Total	**$6,047,019**	**$7,000,000**	**$ 13,047,019**	

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Agency's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the summary of significant accounting policies. The Agency's investment policy does not have specific limits in excess of state law on investment credit risk. The investments in U.S. governmental securities or its agencies as noted above have the highest rating awarded by the national rating agencies.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. State law does not require and the Agency does not have a policy for deposit custodial credit risk. The Agency has chosen to participate in Genesee County's investment pool, which is managed by the County Treasurer. These funds are deposited in the Treasurer's pooled accounts, and are deposited by and in the name of the County Treasurer. Other County funds are also deposited in those accounts and, as such, because of the complexities of FDIC regulation No. 330.8, it is not possible to readily determine the amount of insurance that would be allocated to the Agency's deposits.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Agency does not have a policy for investment custodial credit risk. All of the above $13,047,019 in investments held by the Agency is exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the summary of significant

accounting policies. The Agency's investment policy does not have specific limits in excess of State law on concentration of credit risk. More than 5 percent of the Agency's investments are in U.S. governmental securities or its agencies and in commercial paper. All investments held at year end are reported above.

B. Other Receivables

Other receivables consist primarily of billings to residential care providers for prior year cost settlements in addition to Patient Fees, Medicaid Title 19, Medicare and other 3rd party insurers totaling $355,138 less an allowance for doubtful accounts of $83,115 for a net amount of $272,023.

C. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Depreciable capital assets				
Building improvements	$ 483,604	$ -	$ -	$ 483,604
Vehicles and equipment	1,991,700	151,974	(153,313)	1,990,361
Total capital assets	2,475,304	151,974	(153,313)	2,473,965
Accumulated depreciation:				
Building improvements	(11,759)	(32,240)	-	(43,999)
Vehicles and equipment	(1,557,022)	(116,815)	153,313	(1,520,524)
Total depreciation	(1,568,781)	(149,055)	153,313	(1,564,523)
Total net capital assets	$ 906,523	$ 2,919	$ -	$ 909,442

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
Board administration	$123,646
Adult services	8,419
Children's services	6,728
Developmentally disabled services	10,262
Total depreciation expense - governmental activities	**$149,055**

D. Due to State

For the year ended September 30, 2007, the operations of the Agency were conducted under the terms and conditions of its contract with the Michigan Department of Community Health (MDCH). Of the $644,591 due to the State, $202,505 represents the balance owed to the MDCH for local county share of state inpatient services, $97,410 represents the balance owed for excess Medicaid and State funded managed care proceeds that were not expended in the current year, $329,019 represents the amount of Substance Abuse and State Incentive Block grant funds unexpended at the end of the fiscal year, and $15,657 was for other miscellaneous items.

E. Operating Leases

The Agency entered into a one-year agreement to lease the main office building in October 2004. Currently the Agency continues to use the building with the original lease terms and conditions on a month-by-month basis whereby rent is charged at $22,000 per month. The Agency has also entered into agreements of various leases for group homes, vehicles and equipment. Many of these leases are charged to the provider and payable to either the state of Michigan or to Genesee County and therefore are not included in the schedule below due to the pass-through nature of the transactions. Net rental expenses (net of pass-through transactions) amounted to $495,540 for the year ended September 30, 2007.

Future minimum rental commitments for leases that have remaining terms at September 30, 2007, are as follows:

Fiscal Year Ending September 30	Amount
2008	$ 17,467

IV. OTHER INFORMATION

A. Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, malpractice and employee injuries. Commercial insurance has been purchased for these claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Agency also participates in the Genesee County self-insurance program for automobile insurance and does not retain any risk through participation in this program. The Agency is self-funded for dental insurance subject to stop loss insurance limits so that the maximum amount of loss is fixed at a predetermined amount. This amount is provided in the Agency's annual budget.

The self-insurance program for dental insurance is accounted for in the Mental Health Fund. An independent administrator (Delta Dental) is hired to process the daily claims and to perform management duties. Benefits under the program are capped at $1,000 for routine dental and $1,400 for orthodontic procedures per covered person annually. There were no reductions of insurance coverage from the prior year. Settled claims have not exceeded insurance coverage in any of the past three years.

Fiscal Year	Beginning of Period Liability	Current Year Claims and Changes in Estimates	Claims Paid	End of Periods Liability
2005	-	437,022	437,022	-
2006	-	463,369	463,369	-
2007	-	440,174	440,174	-

B. Defined Benefit Pension Plan

Plan Description

The Agency participates in a contributory multi-employer, defined benefit pension plan (the Genesee County Employees Retirement System or GCERS). GCERS was organized pursuant to Section 12A of Act 156, Public Acts of 1851 (MSA 5.333(1); MCLA 46.12a) as amended. The GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the state pension commission and is administered by the Genesee County Retirement Commission. The GCERS was established in 1946, beginning with the General Unit and the County Road Commission. Water and Waste joined the system in 1956, Community Mental Health in 1966, City of Mt. Morris in 1969, and the Genesee District Library in 1980. GCERS issues a stand-alone financial report; a copy of this report may be obtained by contacting the retirement office.

Currently, all Agency employees participate in the plan including non-union, AFSCME union, Teamsters union, as well as the director and program chief employees. Membership in the plan at December 31, 2006, the date of the latest actuarial valuation, is comprised of 374 active members, 47 inactive members, and 186 retirees and beneficiaries. Participants may elect normal retirement after 23 years of service regardless of age or age 60 with 8 years of service. Non-union, program chiefs, and director participants hired before February 9, 1989 and Teamsters and AFSCME participants, are entitled to a retirement benefit equal to the final average compensation multiplied by the sum of 2.4% for the first 25 years of service plus 1.0% of years of service in excess of 25 years up to a maximum of 65% of employer-financed final average compensation. Non-union participants hired after February 9, 1989 are entitled to a retirement benefit equal to the final average compensation multiplied by the sum of 2.4% for the first 25 years of service plus 1.0% for years of service in excess of 25 years up to maximum of 60% of employer-financed final average compensation. Participants hired before February 9, 1989 are vested after 8 years of service and those hired after February 9, 1989 are vested after 15 years of service.

Funding Policy

The Agency is required to contribute at an actuarially determined rate; the current rate of annual covered payroll is 12.80% for all employees. Employees are required to contribute 5% of base pay. Contributions are accumulated in individual accounts for each member remaining in service. If a member leaves service, they may

withdraw their accumulated contribution along with the interest earned on their balance.

Annual Pension Cost

For the year ended September 30, 2007, the Agency's annual pension cost of $2,102,606 for GCERS was equal to the Agency's required and actual contributions. The required contribution was determined as part of the Agency's December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 5% to 9.03% per year, depending on age, attributable to seniority/merit. The actuarial value of GCERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Agency's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 10 years.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/05	$1,858,943	100%	$0
9/30/06	2,187,694	100%	0
9/30/07	2,102,606	100%	0

C. Defined Contribution Pension Plan

In 2000, the Agency authorized that new retirees may elect to transfer the actuarial present value of the participants' accrued benefit under the defined benefit plan to an account within the Genesee County Defined Contribution Pension Plan. Since this is only an option to retirees, no employer or employee contribution can be made.

D. Post employment Health Benefits

The Agency provides post employment health, dental and life insurance benefits to employees that participate in GCERS. Currently 227 retirees are eligible.

Expenditures for post employment benefits are recognized as insurance premiums when they become due. For the current fiscal year these amounted to $2,157,799 for health, $155,171 for dental and $3,305 for life insurance. In addition, the Agency transferred $264,156 into the Retiree Health Care Internal Service Fund.

E. Risk Reserve Fund Net Assets

Net assets in the Risk Reserve Internal Service Fund are restricted for future shortfalls between revenue and expenses.

Following is a schedule of changes in net assets of the Risk Reserve Internal Service Fund:

	Medicaid	State General	Local	Total
Beginning balance	$ 630,930	$ -	$ 31,140	$ 662,070
Additions	249,543	-	12,312	261,855
Deletions	(880,473)	-	(43,452)	(923,925)
Ending balance	**$ -**	**$ -**	**$ -**	**$ -**

F. MDCH Revenue

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

G. Unreserved, Undesignated Fund Balance

Unreserved, undesignated fund balance for the Mental Health Special Revenue Fund is comprised of the following funding source elements:

	Beginning Balance	Additions	Deletions	Ending Balance
Adult benefit waiver funds	$1,136,007	$ -	$ (928,434)	$ 207,573
Public Act 423 funds	1,489,355	326,840	(326,840)	1,489,355
Other funds	325,135	102,275	(26,027)	401,383
Total	**$2,950,497**	**$429,115**	**$ (1,281,301)**	**$2,098,311**

H. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2007 is as follows:

Due to / from other funds:

Receivable Fund	Payable Fund	Amount
Mental health	Retiree health care	$1,300,366
	Benefit leave time fund	7,876
	Risk reserve fund	503,938
	Total internal balances	**$1,812,180**

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recoded in the accounting system, and payments between funds are made.

Interfund Transfers:

Transfer Out	Transfer In Mental Health Fund
Risk reserve fund	$ 923,924
Employee benefits fund	149,497
	$ 1,073,431

Transfers are used to move unrestricted Risk Reserve Funds to finance eligible expenditures in the Mental Health Fund.

* * * * *

Required Supplementary Information

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	$ 66,059,000	$ 64,666,000	$ (1,393,000)	102.2%	$18,718,641	(7.4%)
12/31/02	64,240,420	67,608,297	(3,367,877)	95.0%	19,575,458	(17.2%)
12/31/03	62,858,695	68,477,572	(5,618,877)	91.8%	18,337,810	(30.6%)
12/31/04	62,746,150	73,406,354	(10,660,204)	85.5%	17,976,431	(59.3%)
12/31/05	68,399,573	75,541,319	(7,141,746)	90.5%	17,670,597	(40.4%)
12/31/06	75,763,480	79,032,165	(3,268,685)	95.8%	17,708,033	(18.5%)

Combining Fund Financial Statements and Schedules

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Combining Statement of Net Assets
Internal Service Funds

September 30, 2007

	Employee Benefits	Retiree Health Care	Risk Reserve	Total
Current assets				
Cash and cash equivalents	$1,283,701	$ 200,000	$ 500,000	$ 1,983,701
Investments	-	13,047,019	-	13,047,019
Interest receivable	7,876	99,754	3,938	111,568
Due from other county funds	-	20,118	-	20,118
Prepaids	-	169,205	-	169,205
Total assets	**1,291,577**	**13,536,096**	**503,938**	**15,331,611**
Current liabilities				
Accounts payable	-	12,152	-	12,152
Accrued liabilities	1,283,701	-	-	1,283,701
Due to mental health fund	7,876	1,300,366	503,938	1,812,180
Total liabilities	**1,291,577**	**1,312,518**	**503,938**	**3,108,033**
Net assets				
Restricted for employee benefits	**$ -**	**$12,223,578**	**$ -**	**$12,223,578**

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

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

For the Year Ended September 30, 2007

	Employee Benefits	Retiree Health Care	Risk Reserve	Total
Operating revenue				
Charges for services	$ -	$ 264,156	$ -	$ 264,156
Expenses				
Employee benefits	-	2,316,275	-	2,316,275
Net operating loss	-	(2,052,119)	-	(2,052,119)
Non operating revenue				
Interest revenue	69,198	757,997	261,854	1,089,049
Income (loss) before transfers	69,198	(1,294,122)	261,854	(963,070)
Transfers out	(149,497)	-	(923,924)	(1,073,421)
Change in net assets	(80,299)	(1,294,122)	(662,070)	(2,036,491)
Net assets, beginning of year	80,299	13,517,700	662,070	14,260,069
Net assets, end of year	**$ -**	**$12,223,578**	**$ -**	**$12,223,578**

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended September 30, 2007

	Employee Benefits	Retiree Health Care	Risk Reserve	Total
Cash flows from operating activities				
Cash repaid for interfund services	$ -	$(2,125,060)	$ -	$(2,125,060)
Payments to suppliers	-	(2,302,375)	-	(2,302,375)
Payments to employees	(68,685)	-	-	(68,685)
Net cash used in operating activities	**(68,685)**	**(4,427,435)**	**-**	**(4,496,120)**
Cash flows used in non-capital financing activities				
Transfer to other funds	(141,621)	(20,118)	(5,288,340)	(5,450,079)
Cash flows from investing activities				
Sale of investments	1,299,860	3,090,250	5,499,083	9,889,193
Interest received	61,322	847,977	257,916	1,167,215
Net cash provided by investing activities	**1,361,182**	**3,938,227**	**5,756,999**	**11,056,408**
Increase (decrease) in cash and cash equivalent	**1,150,876**	**(509,326)**	**468,659**	**1,110,209**
Cash and cash equivalents, beginning of year	132,825	709,326	31,341	873,492
Cash and cash equivalents, end of year	**$1,283,701**	**$ 200,000**	**$ 500,000**	**$ 1,983,701**
Reconciliation of operating income (loss) to net cash used in operating activities				
Operating loss	$ -	$(2,052,119)	$ -	$(2,052,119)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Changes in assets and liabilities:				
Prepaids	-	14,330	-	14,330
Accounts payable	-	(430)	-	(430)
Accrued liabilities	(68,685)	-	-	(68,685)
Due to mental health fund	-	(2,389,216)	-	(2,389,216)
Net cash used in operating activities	**$ (68,685)**	**$(4,427,435)**	**$ -**	**$(4,496,120)**

Non Cash Transactions

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Combining Statement of Fiduciary Assets and Liabilities - Agency Funds

September 30, 2007

	Client Activity Fund	Representative Payee Fund	Total
Assets			
Cash and cash equivalents	$ 15,500	$ 245,023	$ 260,523
Liabilities			
Accrued liabilities	$ 15,500	$ 245,023	$ 260,523

Single Audit Section

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 31, 2008

Board of Directors
Genesee County Community Mental Health Services

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Genesee County Community Mental Health Services*** (the Agency), as of and for the year ended September 30, 2007, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated March 31, 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 the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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 Agency'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 Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Agency'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 that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Agency, in a separate letter dated March 31, 2008.

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

Rehmann Robson

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

March 31, 2008

Board of Directors
Genesee County Community Mental Health Services

Compliance

We have audited the compliance of ***Genesee County Community Mental Health Services*** (the Agency) 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 Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency'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 Agency'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 Agency's compliance with those requirements.

In our opinion, the Agency 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-2.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Agency's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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 Agency's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-2 to be a significant deficiency.

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 Agency's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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

Rehmann Robson

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

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		
Direct program:		
Supportive Housing Program		
Shelter Plus Care Program	14.238	$ 135,626
Passed through the Metro Housing Partnership:		
Supportive Housing - Traditional	14.235	180,010
Supportive Housing - Daily Living Skills	14.235	33,926
Supportive Housing - Operations	14.235	383,820
Passed through the City of Flint, MI:		
Emergency Shelter Grants Program	14.231	24,803
Total U.S Department of Housing and Urban Development		758,185
U.S. Department of Education		
Passed through the Flint Community School District:		
Safe Schools/Healthy Students	84.184	200,334
U.S. Department of Health and Human Services		
Passed through Michigan Department of Community Health and Department of Human Services:		
from Homelessness (PATH)	93.150	81,150
Medical Assistance Program - OBRA - PASSAR	93.778	400,799
Community Mental Health Services Block Grant:		
Family Psycho-Education	93.958	70,185
Juvenile Justice	93.958	96,763
Multi-Systematic Therapy	93.958	$ 24,710

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Schedule of Expenditures of Federal Awards (concluded)
For the Year Ended September 30, 2007

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services (continued)		
Passed through Michigan Department of Community Health		
Center for Substance Abuse Services:		
SAPT Block Grant	93.959	3,674,283
State Incentive Program	93.243	37,230
Total U.S. Department of Health and Human Services		4,385,120
U.S. Department of Homeland Security		
Passed through the United Way:		
Emergency Food and Shelter National Board Program	97.024	17,878
Total expenditures of federal awards		**$ 5,361,517**

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICE

Notes to Schedule of Expenditures of Federal Awards

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1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Genesee County Community Mental Health Service and is presented on the modified accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and 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.

* * * * *

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICE

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes __X__ no

Significant deficiency (ies) identified not considered to be material weaknesses? __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 _____ none reported

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.959	SAPT Block Grant
93.778	Medical Assistance Program – OBRA-PASSAR

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

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICE

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1 – Separation of duties – payroll processing

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and safeguarding the Agency's assets.

Condition: During the course of our audit, we noted an instance where multiple key payroll duties were being performed by the same individual and there were no mitigating controls in place to ensure effective internal controls. Specifically, the payroll clerk inputs new hire information into the payroll system, and processes and prints the payroll checks.

Cause: As is the case with many organizations of similar size, the Agency lacks a sufficient number of personnel in order to ensure a complete segregation of duties within its accounting function.

Effect: The Agency's current system of internal control does not appear to have sufficient safeguards in place to ensure that fraud or abuse is prevented or can be detected in a timely manner. Ideally, no single individual should ever be able to input payroll records and prepare payroll checks. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.

View of Responsible Officials: The Agency has considered the risk due to this lack of segregation of duties and has determined that the cost of mitigating this issue does not warrant, at this time, the expense of implementing a change that would ensure proper segregation of duties.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICE

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2007 - 2 – CFDA# 93.778 Passed through the Michigan Department of Community Health – Period of Availability

Criteria: Federal awards generally specify a time period during which the non-federal entity may use the federal funds. For the OBRA Pre-Admission Screening, and Annual Resident Review, the Agency is required submit all bills for services provided under the agreement to the MDCH within fifteen days following the end of the fiscal year.

Condition: During our testing, we noted that, because the time activity sheets of certain employees were not timely submitted to the accounting department, the payroll earned by those employees in the last pay period of the 2007 fiscal year were being charged to the next fiscal period.

Cause: This condition was caused by the Agency's lack of internal control whereby all staff working partially on federally funded programs are required to submit a time activity sheet on a timely basis.

Effect: As a result of this condition, the Agency runs the risk of charging expenditures to the wrong grant program period.

View of Responsible Officials: The Agency has addressed the issue to ensure the timely submission of time sheets in order to report actual amounts.

SECTION IV - PRIOR YEAR FINDINGS

None.

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REHMANN ROBSON
Certified Public Accountants
A member of THE REHMANN GROUP
An Independent Member of Baker Tilly International

March 31, 2008

To the Board of Directors of the
Genesee County Community Mental Health Services Agency
Flint, Michigan

We have audited the financial statements of **Genesee County Community Mental Health Services** for the year ended **September 30, 2007**, and have issued our report thereon dated **March 31, 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 **November 30, 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 Genesee County Community Mental Health Services' 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 Genesee County Community Mental Health Services' 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 Genesee County Community Mental Health Services' 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 Genesee County Community Mental Health Services' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Genesee County Community Mental Health Services' 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 Genesee County Community Mental Health Services 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 Genesee County Community Mental Health Services 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 Genesee County Community Mental Health Services' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, unless noted in our report in accordance with OMB Circular A-133 (Single Audit), none of the adjustments we proposed, whether recorded or unrecorded by Genesee County Community Mental Health Services, either individually or in the aggregate, indicate matters that could have a significant effect on Genesee County Community Mental Health Services' financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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 Genesee County Community Mental Health Services' 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 are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson

Genesee County Community Mental Health Services

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of **Genesee County Community Mental Health Services** (the "**Agency**")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 **Agency**'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 **Agency**'s internal control. Accordingly, we do not express an opinion on the effectiveness of the **Agency**'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 **Agency**'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. None of the deficiencies we noted are considered to be material weaknesses as described in the Schedule of Findings and Questioned Costs in the **Agency**'s Single Audit report.

Other Matters

A - New Auditing Standards for Upcoming Year

In March 2006, the Auditing Standards Board issued eight auditing standards, collectively referred to as the *risk assessment standards*. These new standards are effective for audits of financial statements for periods beginning on or after December 15, 2006. Most auditors believe that the changes caused by the new risk assessment standards are the most significant in recent history.

Overall, the new standards should increase the effectiveness of financial statement audits. In applying the risk assessment standards, auditors explicitly consider higher areas by focusing on what is most likely to go wrong that could affect the financial statements. Auditors assess the risk that the financial statements are materially misstated and design and perform audit procedures to respond to those identified risks. In performing audits under the new standards, auditors and clients may find that they may need to spend more time (at least in the year of adoption) documenting their understanding of internal control systems for each

significant area and financial statement assertion as it relates to what could go wrong from a financial reporting focus, mitigating controls, and determining if those controls have been implemented.

Recommendation:

We would recommend that the Agency begin defining the significant areas and accounting cycles related to financial reporting, identifying "what could go wrong" scenarios and the controls that the Agency has in place to mitigate the impact related to each financial statement assertion.

We of course are willing and able to provide guidance and assistance in developing these new internal control models at any level of involvement as the Agency determines.

We believe that the Agency will benefit by having a working model to assess the Agency strengths and areas of improvement over internal controls, a physical resource to demonstrate the Agency's resolve and commitment to good financial reporting and fiscal responsibility, and a proactive approach to help mitigate the rising costs of audit services due to increasing standards and regulations.

* * * * *