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	AuSable Valley Community Mental Health Board	Iosco

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
09/30/2006	12/28/2006	02/23/2007

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)	☒	Single Audit Report

Certified Public Accountant (Firm Name)	Telephone Number		
Stephenson, Gracik & Co., P.C.	(989) 362-4491		
Street Address	**City**	**State**	**Zip**
325 Newman Street, PO Box 592	East Tawas	MI	48730

Authorizing CPA Signature	Printed Name	License Number
Gerald D. Gracik Jr.	Gerald D. Gracik, Jr.	1101016162

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Herman A Bertuleit, CPA

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD
TAWAS CITY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2006

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Herman A Bertuleit, CPA

December 28, 2006

Independent Auditors' Report

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Board's basic financial statements, as listed in the index. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of September 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2006, on our consideration of the AuSable Valley Community Mental Health Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the AuSable Valley Community Mental Health Services Board's basic financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

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AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2006

As management of the AuSable Valley Community Mental Health Services Board, (the Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended September 30, 2006.

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

FINANCIAL HIGHLIGHTS

The Board has taken advantage of opportunities to increase its program funding this year, and to make good use of that added resource for the improvement of program. In addition to that, the Board has been successful in seeing resolution on one major dispute which was resolved in the Board's favor. These issues are described as follows:

1. We have continued our efforts at maximizing the quality and extent of our programs, and have taken the steps which are necessary to develop and maintain the resources in order to do that. We were successful in securing additional Medicaid funding, which were used to enhance our program of services for people with developmental disabilities; and to enhance our work with families of people with serious mental illnesses.

2. We have taken the necessary steps to develop our technological resources in order to create and provide the data which are necessary to receive and retain the resources which continue to make these program improvements possible. We have substantially expanded our computer network, in order to allow all professional staff, and many para-professional staff, access to computers to enable them to do their job better. We have continued to beef up our reimbursement effort, to be sure that we are capturing all Medicaid funds which are due to us. These actions have further stabilized our resource base and our assurance that we will be able to continue to maintain it.

3. We have successfully supported the family of a child receiving a very extensive and expensive range of services to require that the State Adoption Subsidy Office pay for those services. This was an issue which had a potential cost to us of $700,000 or more if the outcome had been different. Elements of the case are still under appeal, but it does not appear likely that there will be any costs from this case which are applied to the Board, except for some relatively minimal costs for professional services, which we have been paying all along.

4. We have continued our vigorous defense against any attempt by the State to take back funds by changing the rules after the fact. The successful outcome of one of those issues is described in Item 3 above. We continue to wage a vigorous defense on the issue of the Department's fiscal audit from 2001.

5. We have continued to provide a careful review of the Board's finances, in order to assure long-term stability of the Board. This is a renewed commitment which must be made every year, but one in which we were successful again in 2006.

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

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by $2,247,361 (net assets). Of this amount, $401,204 (unrestricted net assets) may be used to meet the Board's ongoing obligations to clients and creditors.

The Board's total net assets decreased by $78,918. This is a 3.4% decrease.

As of the close of the current fiscal year, the Board's governmental fund reported an ending fund balance of $744,633, a decrease of $255,017 in comparison with the prior year. The fund balance represents $50,083 of Adult Benefit Waiver and $3,746 of MI Child carryover which will become local funds in the next fiscal year, as well as $690,804 of unreserved local dollars. The total fund balance was 5.5% of the total expenditures of the general fund.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the AuSable Valley Community Mental Health Services Board basic financial statements. The Board's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Board's finances in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Board's assets and liabilities, with the difference between the two reported as *net assets.* Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected client fees and earned but unused sick and vacation leave).

Both the government-wide financial statements distinguish functions of the Board that are principally supported by intergovernmental revenues (*governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities).* The governmental activities of the Board include program activities. The Board does not currently have any business-type activities.

The government-wide financial statements are presented in Exhibits A and B of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the Board can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating an entity's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the *governmental fund* and *governmental activities.*

The Board maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balance for the general fund which is considered to be a major fund.

The Board adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

The basic governmental fund financial statements are presented in Exhibits C and E of this report.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Internal service funds are used to account for the financing of goods or services provided by other funds of the entity. The Board's internal service fund is used to account for the securing of funds necessary to meet expected future risk financing requirements. The internal service fund is reported with governmental activities in the government-wide financial statements. The basic proprietary fund financial statements are presented in Exhibits G, H and I of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, are presented in Exhibit J of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Board's governmental fund. Required supplementary information is presented in Exhibit K of this report.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplemental Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Board's net assets were $2,247,361 at September 30, 2006. Of this amount, $401,204 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the Board's governmental activities.

TABLE 1
NET ASSETS

	Governmental Activities	
	September 30, 2006	September 30, 2005
Current Assets	$ 1,603,458	$ 1,979,671
Noncurrent Assets	2,208,398	2,029,033
Total Assets	3,811,856	4,008,704
Current Liabilities	1,092,425	1,208,105
Noncurrent Liabilities	472,070	474,320
Total Liabilities	1,564,495	1,682,425
Net Assets		
Invested in Capital Assets	1,846,157	1,637,112
Unrestricted	401,204	689,167
Total Net Assets	$ 2,247,361	$ 2,326,279

The $401,204 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today,* including all of our noncurrent liabilities (compensated absences for example); we would have $401,204 left.

TABLE 2
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended September 30, 2006	Year Ended September 30, 2005
Revenues:		
Program Revenues:		
Charges for Services	$ 1,093,479	$ 1,103,546
Operating Grants and Contributions	1,044,666	1,200,295
General Revenues:		
DCH Formula Funding	2,191,996	2,151,084
Managed Care Medicaid	8,416,597	7,766,347
Adult Benefit Waiver	332,567	323,050
MI Child	9,925	10,302
County Appropriations	133,883	147,553
Title XX Replacement	8,200	8,200
Interest Earnings	76,079	39,124
Miscellaneous	0	220
Total Revenues	13,307,392	12,749,721
Expenses:		
MI – Child Habilitation Services	68,311	76,917
MI – Child Outpatient	254,789	215,791
MI – Child Community Inpatient	3,545	0
MI – Child State Inpatient	4,060	89,184
MI – Child Case Management	513,598	580,736
MI – Adult State Inpatient	22,321	34,692
MI – Adult Community Inpatient	119,138	79,127
MI – Adult Habilitation Services	753,395	693,644
MI – Adult Outpatient	817,766	700,545
MI – Adult Case Management	1,062,857	977,546
DD – State Inpatient	86,119	114,382
DD – Children's Waiver	1,432	51,491
DD – Habilitation Services	4,462,565	3,819,282
DD – Community Living	957,231	888,973
DD – Outpatient	332,752	285,217
DD – Case Management	592,955	622,774
DD – Respite Care	27,157	14,641
Other Outpatient Services	307,023	280,554
Emergency Services	148,889	129,454
Supported Employment	705,928	708,426
Prevention	1,294,282	1,264,886
Substance Abuse Program	850,197	817,240
Total Expenses	13,386,310	12,445,502
Change in Net Assets	$ (78,918)	$ 304,219

Governmental activities decreased the Board's net assets by $78,918.

As reported in our Statement of Activities in Exhibit B, the cost of all of our governmental activities this year was $13,386,310. However, the amount that our counties ultimately financed for these activities through the Board was only $133,883 because most of the cost was paid by those who benefited from the programs $1,093,479, by other governments and organizations who subsidized certain programs with grants and contributions $1,044,666, by DCH Formula Funding $2,191,996, Managed Care Medicaid $8,416,597, Adult Benefit Waiver $332,567, MI Child $9,925, and by miscellaneous sources $84,279.

MAJOR GOVERNMENTAL FUND BUDGETING AND OPERATING HIGHLIGHTS

The Board's budget is prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the year ended September 30, 2006, the Board amended the budget of this major governmental fund one time with no significant changes.

General Fund

The general fund actual revenue was $13,300,448. The amount is less than the original budget estimates of $13,391,437. The variance between the actual revenue and the original budget was largely due to Medicaid eligible expenditures being less than anticipated.

The actual expenditures of the general fund were $13,564,889, which is more than the original budget estimates of $13,391,437. The variance between the actual expenditures and the original budget was partly due to the payoff of an insurance reserve balance. This expenditure was required in order to enter into a new health insurance contract.

The General Fund had total revenues of $13,300,448 and total expenditures of $13,564,889 with an ending fund balance of $744,633.

TOTAL REVENUES

The total revenues of the Board were $13,307,392. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for $2,138,145 or 16.1% of total revenues of $13,307,392.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to $13,564,889. The governmental fund had a net decrease in fund balance of $255,017. The ending fund balance for the governmental fund was $744,633 which represents 5.5% of current year expenditures. The ending fund balance percentage for the prior year represented 7.9% of last year's expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the Board had $3,325,512 invested in land, land improvements, buildings and improvements, furniture, fixtures, equipment and vehicles. Of this amount, $1,479,355 in depreciation has been taken over the years. We currently have net book value of $1,846,157. Total additions for the year were $351,124. An expanded and detailed presentation may be seen in Note 7 of the audit, notes to financial statements.

Long-Term Debt

At September 30, 2006, the Board had $504,786 of accrued compensated absences of which $32,716 was the estimated current portion. Additional information on this balance can be found in Note 8 of the audit, notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

With the State of Michigan faced with a significant deficit, the funding available for Community Mental Health programs is uncertain. We continue to budget and plan at levels consistent with ongoing programs while continually monitoring for any developments at the State and Federal levels. Management will continue to work closely with the Board and its Finance Committee to continue to achieve these goals. The level of volatility for 2007 appears greater than it was in 2006. It continues to be possible that we will see reductions in our general fund allocation. Management will continue to report the status of such funding on a regular basis to the Board and its Finance Committee.

REQUESTS FOR INFORMATION

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

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

EXHIBIT A

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF NET ASSETS
September 30, 2006

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	$ 1,220,859
Accounts receivable - CMH Services	104,199
Accounts receivable - SSI	23,655
Accounts receivable - Substance Abuse	6,957
Accounts receivable - Miscellaneous	109,331
Due from federal	13,758
Due from state	12,197
Escrows and deposits	45,811
Prepaid expenses	66,691
Total current assets	1,603,458
Noncurrent assets:	
Land contracts receivable	362,241
Capital assets - net	1,846,157
Total noncurrent assets	2,208,398
Total Assets	3,811,856
Liabilities	
Current liabilities:	
Accounts payable	204,980
Due to affiliation	183,797
Due to state	52,692
Accrued wages	189,772
Accrued pension	379,858
Due to employees - flex plan	13,734
Escrow payable	34,876
Compensated absences payable	32,716
Total current liabilities	1,092,425
Noncurrent liabilities:	
Compensated absences payable	472,070
Total Liabilities	1,564,495
Net Assets	
Invested in capital assets	1,846,157
Unrestricted	401,204
Total Net Assets	$ 2,247,361

The accompanying notes to financial statements are an integral part of this statement.

EXHIBIT B

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

		Program Revenues		Net (Expenses) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
MI - Child Habilitation Services	$ 68,311	$ 0	$ 0	$ (68,311)
MI - Child Outpatient	254,789	76,492	0	(178,297)
MI - Child Community Inpatient	3,545	0	0	(3,545)
MI - Child State Inpatient	4,060	0	0	(4,060)
MI - Child Case Management	513,598	163	106,830	(406,605)
MI - Adult State Inpatient	22,321	0	0	(22,321)
MI - Adult Community Inpatient	119,138	0	0	(119,138)
MI - Adult Habilitation Services	753,395	43,559	0	(709,836)
MI - Adult Outpatient	817,766	102,698	15,304	(699,764)
MI - Adult Case Management	1,062,857	26,032	2,654	(1,034,171)
DD - State Inpatient	86,119	0	0	(86,119)
DD - Children's Waiver	1,432	(11,029)	0	(12,461)
DD - Habilitation Services	4,462,565	415,756	11,980	(4,034,829)
DD - Community Living	957,231	61,301	11,235	(884,695)
DD - Outpatient	332,752	1,421	2,484	(328,847)
DD - Case Management	592,955	1,564	50	(591,341)
DD - Respite Care	27,157	0	0	(27,157)
Other Outpatient Services	307,023	41,688	0	(265,335)
Emergency Services	148,889	2,061	0	(146,828)
Supported Employment	705,928	97,786	0	(608,142)
Prevention	1,294,282	4,612	347,163	(942,507)
Substance Abuse Program	850,197	229,375	546,966	(73,856)
Total Governmental Activities	$ 13,386,310	$ 1,093,479	$ 1,044,666	(11,248,165)
General Revenues:				
DCH Formula Funding				2,191,996
Managed Care Medicaid				8,416,597
Adult Benefit Waiver				332,567
MI Child				9,925
County Appropriations				133,883
Title XX Replacement				8,200
Interest Earnings				76,079
Total General Revenues				11,169,247
Change in Net Assets				(78,918)
Net Assets - Beginning of Year				2,326,279
Net Assets - End of Year				$ 2,247,361

The accompanying notes to financial statements are an integral part of this statement.

EXHIBIT C

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2006

	General Fund
ASSETS	
Cash and cash equivalents	$ 1,059,502
Accounts receivable - CMH Services	104,199
Accounts receivable - SSI	23,655
Accounts receivable - Substance Abuse	6,957
Accounts receivable - Miscellaneous	109,331
Due from federal	13,758
Due from state	12,197
Escrows and deposits	45,811
Prepaid expenses	66,691
Land contracts receivable	362,241
Total Assets	$ 1,804,342
LIABILITIES AND FUND EQUITY	
Liabilities	
Accounts payable	$ 204,980
Due to affiliation	183,797
Due to state	52,692
Accrued wages	189,772
Accrued pension	379,858
Due to employees - flex plan	13,734
Escrow payable	34,876
Total Liabilities	1,059,709
Fund Equity	
Fund Balances:	
Reserved:	
Adult Benefit Waiver	50,083
MI Child	3,746
Unreserved-undesignated	690,804
Total Fund Equity	744,633
Total Liabilities and Fund Equity	$ 1,804,342

The accompanying notes to financial statements are an integral part of this statement.

EXHIBIT D

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
September 30, 2006

Total governmental fund balance		$ 744,633
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 as assets in governmental funds. Capital assets at year end consist of:		
Capital asset cost	$ 3,325,512	
Capital asset accumulated depreciation	(1,479,355)	
		1,846,157
An internal service fund is used to secure funds to meet expected future risk financing requirements. The assets and liabilities of the internal service fund are included with governmental activities.		161,357
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:		
Compensated absences payable		(504,786)
Total net assets - governmental activities		$ 2,247,361

The accompanying notes to financial statements are an integral part of this statement.

EXHIBIT E

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended September 30, 2006

	General Fund
Revenue	$ 13,300,448
Expenditures	13,564,889
Excess of revenue over (under) expenditures	(264,441)
Other Financing Sources:	
Operating transfers in	9,424
Excess or revenue and other sources over (under) expenditures	(255,017)
Fund balance - beginning of year	999,650
Fund balance - end of year	$ 744,633

The accompanying notes to financial statements are an integral part of this statement.

EXHIBIT F

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

Total net change in fund balance - governmental fund		$ (255,017)
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 as depreciation expense.		
Current year depreciation expense	$ (141,353)	
Capital outlays reported in the governmental funds	351,124	
Loss on sale or exchange of assets	(726)	
Net difference		209,045
Net change in accrued compensated absences:		
Accrued compensated absences September 30, 2005	474,320	
Accrued compensated absences September 30, 2006	(504,786)	
		(30,466)
The change in net assets of the internal service fund (a proprietary fund) is reported with governmental activities.		(2,480)
Change in net assets of governmental activities		$ (78,918)

The accompanying notes to financial statements are an integral part of this statement.

EXHIBIT G

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2006

	Governmental Activities - Internal Service Fund
ASSETS	
Current assets:	
Cash and cash equivalents	$ 161,357
Total Assets	161,357
LIABILITIES	
Current liabilities	0
Total Liabilities	0
NET ASSETS	
Unrestricted	161,357
Total Net Assets	$ 161,357

The accompanying notes to financial statements are an integral part of this statement.

EXHIBIT H

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended September 30, 2006

	Governmental Activities - Internal Service Fund
Operating revenue	$ 0
Operating expenses	0
Operating income	0
Non-operating revenue:	
Interest on investments	6,944
Income before operating transfers	6,944
Other Financing Uses:	
Operating transfers out	(9,424)
Change in net assets	(2,480)
Total net assets - beginning of year	163,837
Total net assets - end of year	$ 161,357

The accompanying notes to financial statements are an integral part of this statement.

EXHIBIT I

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2006

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities	$ 0
Cash Flows From Noncapital Financing Activities	
Cash paid to other funds	(9,424)
Cash Flows From Investing Activities	
Interest earned on investments	6,944
Net decrease in cash and cash equivalents	(2,480)
Cash and cash equivalents at beginning of year	163,837
Cash and cash equivalents at end of year	$ 161,357

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the AuSable Valley Mental Health Services Board conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Board is considered to be a local government unit. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Reporting Entity

The AuSable Valley Community Mental Health Services Board functions as a joint venture between Iosco, Ogemaw and Oscoda counties, and is designated as a Community Mental Health Authority under Section 205 of the Michigan Mental Health Code of 1996. The Board operates under an appointed Board (12 members) whose purpose is to provide quality mental health services to residents of the above constituent counties, which are aimed at preventing and treating emotional problems and substance abuse; and which promote greater independence and improved quality of life for people in these counties with developmental disabilities, mental illness, or substance abuse. The financial statements of the AuSable Valley Community Mental Health Services Board have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Board's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Board exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Basis of Presentation

The Board's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities. The Board does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

The statement of net assets presents the financial condition of the governmental activities of the Board at year end. The statement of activities presents a comparison between program expenses and program revenues for each function or program of the Board's governmental activities. Program expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of program expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Board. Indirect expenses for overhead (i.e. utilities, telephone, rent, etc.) are allocated based on building square footage. The indirect expenses for board administration and program indirect costs are allocated to each program proportionately based on direct program expenses net of contract costs.

Fund Financial Statements:

Fund financial statements report detailed information about the Board. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Board's general fund and internal service funds are considered major funds.

C. Fund Accounting

The Board uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The general fund of the Board is in the governmental category and the internal service fund is in the proprietary category.

Governmental Funds:

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Board's major governmental fund:

General Fund – The General Fund is the general operating fund of the Board. It is used to account for all financial resources.

Proprietary Funds:

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

Proprietary Fund – Internal service funds are used to account for the financing of goods or services provided by other funds of the entity. The Board's internal service fund is used to account for the securing of funds necessary to meet expected future risk financing requirements.

D. Measurement Focus

Government-Wide Financial Statements:

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Board are included on the statement of net assets.

Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund is included on the statement of net assets. The statement of changes in revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Board finances and meets the cash flow needs of its proprietary activities.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The governmental fund also uses the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Board are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the governmental-wide and fund financial statements.

H. Capital Assets

General capital assets are those assets that result from expenditures in the governmental fund. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a $1,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Descriptions	Governmental Activities Estimated Lives
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture, fixtures and equipment	5 - 20 years
Vehicles	5 years

I. Compensated Absences

The Board reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave and vacation benefits are accrued as a liability using the vesting method. An accrual for earned sick leave and vacation are made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Board's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental fund are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2006.

M. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

N. Budgets and Budgetary Accounting

The Board normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Director of Finance submits to the Board a proposed budget prior to September 1 of each year. The budget includes proposed expenditures and the means of financing them.

   The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for General Funds.

2. A public hearing is conducted to obtain taxpayer comments.

3. Prior to October 1, the budget is legally enacted through passage of Board motion.

4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Board.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Governmental Fund Balance Reserves

The Board records reservations for portions of governmental fund balances which are legally segregated for a specific future use or which do not represent available spendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Reservations for Adult Benefit Waiver and MI Child will become local funds in the next fiscal year.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Board's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	$ 1,220,859

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts)	$ 552,013
Investment in money market funds	660,902
Petty cash	200
Cash advances	7,150
Cash held in trust	594
Total	$ 1,220,859

As of September 30, 2006, the Board had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Money market funds	$ 660,902	Daily

Credit Risk

As of September 30, 2006, the Board's investments consisted entirely of investment in the Fifth Third Institutional Government Money Market Fund. This fund was rated AAAm by Standard & Poor's and AAA by Fitch Ratings.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As of September 30, 2006, $715,729 of the Board's bank balance of $985,810 was exposed to custodial credit risk because it was uninsured and uncollateralized.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Board will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the Board's investment policy which is in accordance with State law.

Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The Board's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

Investments:

The AuSable Valley Community Mental Health Services Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Board to deposit and invest in the following:

* Accounts of federally insured banks, credit unions and savings and loan associations
* Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
* United States government or federal agency obligation repurchase agreements
* Banker's acceptances of United States banks
* Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
* Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Board's deposits and investments are in accordance with statutory authority.

NOTE 3 - ACCOUNTS RECEIVABLE – CMH SERVICES

Accounts receivable – CMH Services includes gross receivables from clients, Medicare, Blue Cross and Blue Shield, HMO's and other commercial insurances of $167,507 less a contractual allowance of $63,308.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 4 - DUE FROM STATE

Due from State includes grant receivables as follows:

Department of Community Health:	
OBRA PASARR	$ 4,840
Department of Human Services:	
Teen Parenting Program	5,437
Strong Families Safe Children	1,920
	7,357
	$ 12,197

NOTE 5 - LAND CONTRACTS RECEIVABLE

Land contracts that were transferred from the AuSable Valley Community Mental Health Foundation follow:

Contract Date	Location	Original Contract	Monthly Payment	Interest Rate	Balance September 30, 2006
October 1, 1993	West Branch, MI	$ 55,000	$ 263	6%	$ 18,116
January 3, 1994	West Branch, MI	57,500	412	6%	19,675
July 7, 1994	Lupton, MI	68,000	292	6%	15,664
February 19, 1999	East Tawas, MI	71,500	512	6%	35,616
September 29, 2000	Rose City, MI	75,000	432	6%	69,928
January 3, 2001	West Branch, MI	62,000	372	6%	56,949
August 6, 2002	East Tawas, MI	75,000	450	6%	70,804
June 11, 2003	Oscoda, MI	78,900	473	6%	75,489
					$ 362,241

NOTE 6 - DUE TO STATE

Due to State includes the following:

State withholding taxes withheld during the month of September 2006	$ 30,704
Billings for patients of the Board, housed in State operated or State sponsored facilities	21,988
	$ 52,692

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2006, was as follows:

	Balance October 1, 2005	Additions	Deletions	Balance September 30, 2006
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 115,412	$ 0	$ 0	$ 115,412
Capital Assets Being Depreciated:				
Land improvements	0	17,929	0	17,929
Buildings and improvements	1,555,892	61,472	0	1,617,364
Furniture, fixtures and equipment	669,175	197,784	23,848	843,111
Vehicles	761,119	73,939	103,362	731,696
Subtotal	2,986,186	351,124	127,210	3,210,100
Less Accumulated Depreciation for:				
Land improvements	0	448	0	448
Buildings and improvements	278,491	13,039	0	291,530
Furniture, fixtures and equipment	492,600	74,461	23,122	543,939
Vehicles	693,395	53,405	103,362	643,438
Subtotal	1,464,486	141,353	126,484	1,479,355
Capital Assets Being Depreciated	1,521,700	209,771	726	1,730,745
Governmental Activities Total Capital Assets - Net of Depreciation	$ 1,637,112	$ 209,771	$ 726	$ 1,846,157

Depreciation expense was charged to programs as follows:

Governmental Activities	
MI – Child Outpatient	$ 3,072
MI – Child Case Management	7,712
MI – Adult Habilitation Services	10,190
MI – Adult Outpatient	13,729
MI – Adult Case Management	16,477
DD – Habilitation Services	44,425
DD – Community Living	11,981
DD – Outpatient	607
DD – Case Management	3,560
Prevention	17,717
Substance Abuse Program	8,434
Supported Employment	3,449
Total Depreciation Expense – Governmental Activities	$ 141,353

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 8 - LONG-TERM DEBT

Compensated Absences

Sick Pay

The Board has an employee benefit plan that allows employees to accumulate sick pay hours at the rate of four hours per pay period with 1,040 hours maximum accumulation. Upon retirement or death, the employee or beneficiary is entitled to one-half of unused sick pay at their current rate of pay. Upon termination of employment, for reasons other than retirement or death, employees meeting certain requirements are also eligible for one-half of their unused sick pay, to a maximum of 320 hours. The accumulated sick pay liability at September 30, 2006 was $140,703 of which $18,347 was the estimated current portion.

Vacation Pay

The Board has an employee benefit plan that allows employees to accumulate vacation pay, at varying rates, up to a maximum of 240 hours. Upon termination of employment, employees with at least 15 months of service are entitled to all unused vacation pay at their current rate of pay. The accumulated vacation pay liability at September 30, 2006 was $364,083 of which $14,369 was the estimated current portion.

The following is a summary of long-term debt transactions of the Board:

	Balance October 1, 2005	Increases	Balance September 30, 2006	Amount Due In One Year
Compensated absences	$ 474,320	$ 30,466*	$ 504,786	$ 32,716

* Represents net of additions and reductions for the year.

NOTE 9 - LEASE COMMITMENTS

The AuSable Valley Community Mental Health Services Board leases the following facilities: Board Staff Psychiatrist residence from Carole Sullivan for $450 per month; the West Branch Detox Center from Bob Griffin for $850 per month; a consumer leased home from Joan Spurlin for $680 per month; a consumer leased home from G. Reynolds for $450 per month; and a consumer leased home from Nancy Griffin for $700 per month. Total rent expense for the year was $39,867. All leases have initial expiration dates of one year or less except for the Nancy Griffin lease which is a three year lease ending May 2007. Future minimum rental payments under noncancelable leases having initial or remaining noncancelable lease terms in excess of one year for the years after September 30, 2006 are as follows:

2007	$ 5,600

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 10 - PENSION PLAN

The AuSable Valley Community Mental Health Services Board has a defined contribution pension plan. All employees who have completed one (1) year of service and have attained the age of 19 are eligible. Vesting in the plan is 0% for years 1-3 and 100% after year 4. The plan is administered by the Sprague Agency.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

The Board is required to contribute 7% of the participant's base wages for the fiscal year. The contributions are funded on an annual basis.

During the year, the Board's required and actual contributions amounted to $379,858 which was 7% of its current year covered payroll of $5,820,363 less current year forfeitures of $27,567.

No pension provision changes occurred during the year that affected the required contributions to be made by the Board.

NOTE 11 - DEFERRED COMPENSATION PLAN

The Board offers to its employees deferred compensation plans created in accordance with Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Board for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Board's financial statements.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 12 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Board participates in the Michigan Municipal Risk Management Authority for self-insuring liability, vehicle physical damage and property and crime coverage. The pool is considered a public entity risk pool. The Board pays annual premiums to the pool for the respective insurance coverage. Under most circumstances, the Board's maximum coverage per occurrence is limited as follows:

Type of Risk	Coverage	Deductible
Liability	Variable $2,000 - $15,000,000 each occurrence	$ 0
Vehicle physical damage	$1,500,000 each occurrence	$ 250/vehicle
Property and crime	Variable $10,000 - $25,000,000 each occurrence	$ 250/occurrence

The Board has carried commercial coverage for employee health and accident insurance. Effective September 1, 2006, the Board now provides medical insurance through a group self-funded program plan. Blue Cross/Blue Shield of Michigan acts as the administrator of the plan. Claims are paid to Blue Cross/Blue Shield up to a $50,000 stop loss per employee.

NOTE 13 - UNEMPLOYMENT COMPENSATION

The Board is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Board must reimburse the Employment Agency for all benefits charged against the Board. All liabilities incurred have been accrued in the financial statements as of September 30, 2006.

NOTE 14 - CONTINGENCIES

The Board participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended September 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Board expects such amounts, if any, to be immaterial.

The Board's recorded liability to the Michigan Department of Community Health for State operated facilities is less than that reported by the State. The dispute centers around discharge planning. The Board has been successful in similar disputes, and expects the same outcome in this case.

On October 5, 2005, the Fiscal Audit Division of the Michigan Department of Community Health (MDCH) issued the final report of their audit of the AuSable Valley Community Mental Health Services Board for the period October 1, 1998 through September 30, 2001, and selected areas from surrounding years. The report includes significant audit adjustments and payback requirements as a result of various findings. The Board is appealing the findings of the report using the dispute resolution process under the terms of the Managed Specialty Supports and Services Contract as well as under the terms of the Medicaid Provider Reviews and Hearings. A Bureau Conference has been requested, but not yet scheduled.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 14 - CONTINGENCIES (CONTINUED)

In January, 2006, the Fiscal Audit Division of the MDCH began an audit for the period October 1, 2001 through September 30, 2003. Field work was completed in May, 2006. The Board has not yet received the final report for this audit.

The Board is the defendant in various lawsuits. The Board continues to vigorously defend its position in each case. Each matter has been referred to the Board's liability insurance company and expects any damages to be covered by applicable insurance.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT K

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
Revenue	$ 13,391,437	$ 13,300,448	$ 13,300,448	$ 0
Expenditures	13,391,437	13,564,889	13,564,889	0
Excess of revenue over (under) expenditures	0	(264,441)	(264,441)	0
Other Financing Sources:				
Operating transfers in	0	9,424	9,424	0
Excess or revenue and other sources over (under) expenditures	0	(255,017)	(255,017)	0
Fund balance - beginning of year	999,650	999,650	999,650	0
Fund balance - end of year	$ 999,650	$ 744,633	$ 744,633	$ 0

OTHER INFORMATION

EXHIBIT L

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

GENERAL FUND
DETAILS OF REVENUE COMPARED TO BUDGET
For the Year Ended September 30, 2006
With Comparative Actual Amounts for the Year Ended September 30, 2005

	2006 Budget	2006 Actual	2005 Actual
Federal Grants			
Department of Community Health:			
Mental Health Block Grant	$ 59,418	$ 59,418	$ 54,135
OBRA/PASARR	17,787	17,787	14,236
Family Independence Agency:			
Teen Parenting Program	56,775	56,775	50,506
Wraparound Program	45,000	45,000	45,000
Strong Families Safe Children Contract	0	0	40,700
IMH - Secondary Prevention Grant	62,921	62,921	72,036
Iosco Regional Educational Service Agency:			
Infant and Toddlers	60,573	60,573	78,897
St. Joseph Health Systems:			
Community Based Abstinence Grant	122,484	122,484	60,414
U.S. Department of Justice:			
Drug-Free Communities Support Program	0	0	72,010
Northern Michigan Substance Abuse Services, Inc.:			
Substance abuse grants	361,975	361,975	379,942
Bay Arenac Behavioral Health:			
Substance abuse grants	86,020	86,020	60,068
Northeast Michigan Community Service Agency:			
School Success Program	98,971	98,971	86,228
Total Federal Grants	971,924	971,924	1,014,172
State and Local Grants and Contracts			
North Country CMH - Medicaid	8,416,597	8,416,597	7,766,347
Department of Community Health - General Fund	2,191,996	2,191,996	2,151,084
Department of Community Health - Adult Benefit Waiver	332,567	332,567	323,050
Department of Community Health - MI Child	9,925	9,925	10,302
Other State and Local Grants	50,408	50,408	149,783
Grants from Local Units			
Iosco County	69,070	69,070	69,070
Ogemaw County	41,013	41,013	54,683
Oscoda County	23,800	23,800	23,800
Title XX Replacement	8,200	8,200	8,200
Earned Contracts	359,246	359,246	448,820
Charges and Fees for Services			
Client and other	455,564	455,564	448,319
SSI AFC Home	278,669	278,669	206,407
Non-Match Revenue	22,334	22,334	36,560
Interest Earned	69,135	69,135	35,778
Total Mental Health Programs	$ 13,300,448	$ 13,300,448	$ 12,746,375

EXHIBIT M

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended September 30, 2006
With Comparative Actual Amounts for the Year Ended September 30, 2005

	2006 Budget	2006 Actual	2005 Actual
MI - Child Habilitation Services	$ 66,245	$ 66,245	$ 76,486
MI - Child Outpatient	255,643	255,643	217,130
MI - Child Community Inpatient	3,545	3,545	0
MI - Child State Inpatient	4,060	4,060	89,184
MI - Child Case Management	526,762	526,762	583,965
MI - Adult State Inpatient	22,321	22,321	34,692
MI - Adult Community Inpatient	119,138	119,138	79,127
MI - Adult Habilitation Services	763,336	763,336	696,432
MI - Adult Outpatient	795,322	795,322	713,093
MI - Adult Case Management	1,064,317	1,064,317	974,258
DD - State Inpatient	86,119	86,119	114,382
DD - Children's Waiver	1,432	1,432	52,668
DD - Habilitation Services	4,565,945	4,565,945	3,989,695
DD - Community Living	981,624	981,624	861,091
DD - Outpatient	331,897	331,897	289,992
DD - Case Management	604,890	604,890	627,976
DD - Respite Care	27,157	27,157	14,641
Other Outpatient Services	307,023	307,023	280,554
Emergency Services	149,999	149,999	129,928
Supported Employment	720,522	720,522	700,196
Prevention	1,303,072	1,303,072	1,293,757
Substance Abuse Program	864,520	864,520	826,194
	$ 13,564,889	$ 13,564,889	$ 12,645,441

EXHIBIT N

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES
For the Year Ended September 30, 2006
With Comparative Totals for the Year Ended September 30, 2005

	2006	2005
Salaries and wages	$ 7,105,788	$ 6,926,521
Fringe benefits	3,231,349	2,773,828
Board expense	49,541	58,638
Office supplies	50,867	56,698
Postage	17,253	17,476
Furniture and equipment	5,221	5,558
Capital outlay	351,124	322,089
Program supplies	265,377	207,215
Contracted services - miscellaneous	72,308	135,123
Contracted services - audit	16,975	16,320
Contracted services - doctor	106,088	79,581
Contracted services - Northern Family Intervention Services	0	112,500
Contracted services - C.F.C. - home	0	3,276
Contracted services - community inpatient	122,683	79,128
Contracted services - attorney	167,128	73,729
Contracted services - consultation	126,775	103,659
Contracted services - habilitation services	548,448	338,776
Contracted services - Northern Affiliation	57,606	52,259
Contracted services - children's respite	44,602	9,842
Contracted services - software support	5,156	22,415
Contracted services - self determination	31,937	0
Contracted services - Voyager internet	531	534
Institutional billings - local	29,328	55,381
Institutional billings - state	83,172	182,877
Memberships and dues	10,893	8,719
Telephone	91,905	106,165
Transportation - client	147,392	111,326
Transportation - staff	213,683	216,259
Staff development	62,109	48,226
Advertising	11,203	10,775
Insurance and bonds	121,129	117,916
Medicaid draw-down	150,070	146,149
Utilities	96,941	84,116
Repairs and maintenance - building	99,379	93,976
Repairs and maintenance - equipment	31,061	27,220
Rent - building	39,867	41,171
Total Expenditures	$ 13,564,889	$ 12,645,441

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December 28, 2006

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*

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 28, 2006. 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 AuSable Valley Community Mental Health Services Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AuSable Valley Community Mental Health Services Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Members of the Board, the Michigan Department of Treasury, the Michigan Department of Community Health, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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December 28, 2006

Members of the Board
AuSable Valley Community Mental
Health Services Board
Tawas City, Michigan

Dear Board Members:

We have audited the financial statements of the AuSable Valley Community Mental Health Services Board for the year ended September 30, 2006, and have issued our report thereon dated December 28, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133
As stated in our engagement letter dated September 5, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. 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 the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

Significant Accounting Policies
Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Board are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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

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 the Board's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Board, either individually or in the aggregate, indicate matters that could have a significant effect on the Board's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' 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 auditors' 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 the Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Board.

This information is intended solely for the use of management, the Members of the Board, the Michigan Department of Treasury, the Michigan Department of Community Health, 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.

Stephenson, Graith & Co., P.C.

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AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD
TAWAS CITY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 2006

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December 28, 2006

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*

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the AuSable Valley Community Mental Health Services Board's basic financial statements and have issued our report thereon dated December 28, 2006. 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 AuSable Valley Community Mental Health Services Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AuSable Valley Community Mental Health Services Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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December 28, 2006

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

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

Compliance

We have audited the compliance of the AuSable Valley Community Mental Health Services Board 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, 2006. The AuSable Valley Community Mental Health Services Board's major federal program is 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 AuSable Valley Community Mental Health Services Board's management. Our responsibility is to express an opinion on the AuSable Valley Community Mental Health Services Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments,* and *Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the AuSable Valley Community Mental Health Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the AuSable Valley Community Mental Health Services Board's compliance with those requirements.

In our opinion, the AuSable Valley Community Mental Health Services Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the AuSable Valley Community Mental Health Services Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the AuSable Valley Community Mental Health Services Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weaknes s is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board as of and for the year ended September 30, 2006, and have issued our report thereon dated December 28, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the AuSable Valley Community Mental Health Services Board's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Stephenson, Grainke & Co., P.C.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2006

Findings – Financial Statement Audit

There were no findings related to the financial statement audit for the year ending September 30, 2005.

Findings and Questioned Costs – Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ending September 30, 2005.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2006

Summary of Auditors' Results

(1) The auditors' report expresses an unqualified opinion on the financial statements of the AuSable Valley Community Mental Health Services Board.

(2) No reportable conditions relating to the audit of the financial statements are reported in the 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*.

(3) No instances of noncompliance material to the financial statements of the AuSable Valley Community Mental Health Services Board, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

(4) No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.

(5) The auditors' report on compliance for the major federal award programs for the AuSable Valley Community Mental Health Services Board expresses an unqualified opinion.

(6) The auditors' report disclosed no instances of findings relative to the major federal award programs of the AuSable Valley Community Mental Health Services Board.

(7) The program tested as a major program was:

Block Grants for Prevention and Treatment of Substance Abuse CFDA # 93.959

(8) The threshold for distinguishing Type A and B programs was $300,000.

(9) AuSable Valley Community Mental Health Services Board was determined to be a low-risk auditee.

Findings – Financial Statements Audit

There were no findings related to the financial statement audit for the year ending September 30, 2006.

Findings and Questioned Costs – Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ending September 30, 2006.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2006

Federal Grantor or Pass Through Grantor Program Title	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue October 1, 2005	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue September 30, 2006	Adjustments	
U.S. Department of Justice									
Drug-Free Communities Support Program									
2002-JN-FX-0061	16.729	$ 184,115	$ 162,252	$ 24,628	$ 0	$ 24,628	$ 0	$ 0	
U.S. Department of Education									
Passed through Iosco Regional Educational Service Agency as Fiscal Agent:									
Infant and Toddlers:									
051340190	84.181	64,866	43,319	(3,911)	0	(3,911)	0	0	(a)
061340190		65,259	19,471	19,471	45,788	64,003	1,256	0	
071340190		14,785	0	0	14,785	0	14,785	0	
Total U.S. Department of Education		144,910	62,790	15,560	60,573	60,092	16,041	0	
U.S. Department of Health and Human Services									
Passed through St. Joseph Health Systems:									
Community Based Abstinence Education Services	93.110	136,895	0	0	122,484	74,990	47,494	0	
Passed through the Michigan Department of Human Services									
Promoting Safe and Stable Families:	93.556								
SFSC 04-65001-2		37,700	37,700	4,054	0	4,054	0	0	
WRAP 03-68001-4		25,000	0	0	25,000	25,000	0	0	
WRAP 03-65001-4		20,000	0	0	20,000	20,000	0	0	
		82,700	37,700	4,054	45,000	49,054	0	0	
Passed through the Michigan Department of Human Services:									
Temporary Assistance for Needy Families:	93.558								
CTFPR 03-35001		93,539	0	(176)	0	0	0	176	(b)
CTFPR 05-35001		77,081	72,036	(5,405)	0	(5,405)	0	0	(c)
CTFPR 05-35001-2		77,081	0	0	62,745	77,081	(14,336)	0	
TP 01-65001-5		63,127	50,506	21,938	0	21,938	0	0	
TP 06-65001		62,879	0	0	56,775	51,338	5,437	0	
		373,707	122,542	16,357	119,520	144,952	(8,899)	176	

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2006

Federal Grantor or Pass Through Grantor Program Title	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue October 1, 2005	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue September 30, 2006	Adjustments
U.S. Department of Health and Human Services (Continued):								
State Children's Insurance Program:	93.767							
Passed through Northern Michigan Substance Abuse Services:								
Substance Abuse Adult Benefits Waiver:								
Outpatient 2005/2006		$ 23,151	$ 0	$ 0	$ 16,115	$ 15,723	$ 392	$ 0
Detox 2005/2006		833	0	0	580	580	0	0
Substance Abuse Mentally Impaired Child:								
Outpatient 2005/2006		938	0	0	653	653	0	0
		24,922	0	0	17,348	16,956	392	0
Passed through Riverhaven Coordinating Agency:								
Substance Abuse Adult Benefits Waiver								
Detox 2004/2005		11,184	7,795	915	0	915	0	0
Detox 2005/2006		10,553	0	0	7,346	6,344	1,002	0
		21,737	7,795	915	7,346	7,259	1,002	0
Total State Children's Insurance Program		46,659	7,795	915	24,694	24,215	1,394	0
Medicaid Cluster:	93.778							
Passed through the Michigan Department of Community Health:								
OBRA/PASARR		28,240	28,240	2,669	0	2,669	0	0
OBRA/PASARR		890	890	445	0	445	0	0
OBRA/PASARR		15,304	0	0	15,304	12,128	3,176	0
OBRA/PASARR		2,483	0	0	2,483	2,029	454	0
		46,917	29,130	3,114	17,787	17,271	3,630	0
Passed through Riverhaven Coordinating Agency:								
Substance Abuse Medicaid:								
Detox 2004/2005		26,726	15,156	745	0	745	0	0
Detox 2005/2006		20,332	0	0	20,332	19,925	407	0
		47,058	15,156	745	20,332	20,670	407	0

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2006

Federal Grantor or Pass Through Grantor Program Title	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue October 1, 2005	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue September 30, 2006	Adjustments
Passed through Northern Michigan Substance Abuse Services:								
Substance Abuse Medicaid:								
Outpatient 2004/2005		$ 49,379	$ 28,003	$ 530	$ 0	$ 530	$ 0	$ 0
Outpatient 2005/2006		45,198	0	0	25,578	24,954	624	0
Detox 2004/2005		101,899	57,787	3,000	0	3,000	0	0
Detox 2005/2006		89,126	0	0	50,436	50,436	0	0
		285,602	85,790	3,530	76,014	78,920	624	0
Total Medicaid Cluster		379,577	130,076	7,389	114,133	116,861	4,661	0
Passed through the Michigan Department of Community Health:								
Block Grants for Community Mental Health Services:	93.958							
04 B1 MI CMHS-03		54,136	54,135	4,161	0	4,161	0	0
05 B1 MI CMHS-03		59,418	0	0	59,418	45,660	13,758	0
		113,554	54,135	4,161	59,418	49,821	13,758	0
Block Grants for Prevention and Treatment of Substance Abuse:	93.959							
Passed through Northern Michigan Substance Abuse Services:								
Detox 2004/2005		321,632	224,178	22,218	0	22,218	0	0
Detox 2005/2006		227,952	0	0	182,362	181,473	889	0
Outpatient 2004/2005		100,393	69,974	4,474	0	4,474	0	0
Outpatient 2005/2006		107,814	0	0	86,251	85,785	466	0
Prevention 2004/2005		123,713	86,228	0	0	0	0	0
Prevention 2005/2006		123,714	0	0	98,971	98,971	0	0
		1,005,218	380,380	26,692	367,584	392,921	1,355	0
Passed through Riverhaven Coordinating Agency:								
Detox 2004/2005		49,489	37,117	7,158	0	7,158	0	0
Detox 2005/2006		72,927	0	0	58,342	57,190	1,152	0
		122,416	37,117	7,158	58,342	64,348	1,152	0
Total Block Grants for the Prevention and Treatment of Substance Abuse		1,127,634	417,497	33,850	425,926	457,269	2,507	0
Total U.S. Department of Health and Human Services		2,260,726	769,745	66,726	911,175	917,162	60,915	176
Total Federal Awards		$ 2,589,751	$ 994,787	$ 106,914	$ 971,748	$ 1,001,882	$ 76,956	$ 176

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2006

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.

2. The following adjustments were made to the Schedule of Expenditures of Federal Awards:

   (a) Grant Award 051340190 was decreased by $3,911 unspent funds returned to the grantor in the year ending September 30, 2006.

   (b) Grant Award CTFPR 03-35001 beginning deferred revenue was decreased by $176 returned to the grantor in December 2004.

   (c) Grant Award CTFPR 05-35001 was decreased by $5,405 unspent funds returned to the grantor in the year ending September 30, 2006.

3. Reconciliation to the Fund financial statements:

Federal revenues per fund financial statements	$ 971,924
Grant award CTFPR 03-35001 beginning deferred revenue decreased for funds returned to the grantor in December 2004	(176)
Expenditures per the Schedule of Expenditures of Federal Awards	$ 971,748