

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Livingston County CMHA	County Livingston
Fiscal Year End 9/30/07	Opinion Date March 28, 2008	Date Audit Report Submitted to State April 4, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

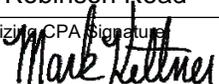
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorized CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673



Financial Statements

For the Year Ended September 30, 2007



REHMANN ROBSON

Certified Public Accountants

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

Table of Contents

	<u>PAGE</u>
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Net Assets	2
Statement of Revenues, Expenses and Changes in Net Assets	3-4
Statement of Cash Flows	5-6
Notes to Financial Statements	7-17
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-20



REHMANN ROBSON

Certified Public Accountants

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BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

March 28, 2008

To the Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the accompanying basic financial statements of the ***Livingston County Community Mental Health Authority*** as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Livingston County Community Mental Health Authority as of September 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

BASIC FINANCIAL STATEMENTS

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**Statement of Net Assets
September 30, 2007**

	Community Mental Health	Children's Pooled Funding Initiative	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,905,260	\$ 535,358	\$ 3,440,618
Accounts receivable, net	192,295	-	192,295
Due from other agencies and governments	452,034	2,000	454,034
Prepays	140,768	-	140,768
Total current assets	3,690,357	537,358	4,227,715
Noncurrent assets:			
Capital assets not being depreciated	243,906	-	243,906
Capital assets being depreciated, net	1,288,035	-	1,288,035
Total noncurrent assets	1,531,941	-	1,531,941
 Total assets	 5,222,298	 537,358	 5,759,656
Liabilities			
Current liabilities:			
Accounts payable	1,161,305	-	1,161,305
Accrued payroll	106,997	-	106,997
Due to other agencies and governments	42,192	-	42,192
Unearned revenue	345,983	-	345,983
Compensated absences	16,408	-	16,408
Total current liabilities	1,672,885	-	1,672,885
Noncurrent liabilities -			
Compensated absences	147,674	-	147,674
 Total liabilities	 1,820,559	 -	 1,820,559
Net assets			
Invested in capital assets	1,531,941	-	1,531,941
Unrestricted	1,869,798	537,358	2,407,156
 Total net assets	 \$ 3,401,739	 \$ 537,358	 \$ 3,939,097

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

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**
Statement of Revenue, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2007

	<u>Community Mental Health</u>	<u>Children's Pooled Funding Initiative</u>	<u>Total</u>
Operating revenue			
State revenue:			
MDCH - general fund contract	\$ 4,094,335	\$ -	\$ 4,094,335
Other state grants	84,921	-	84,921
Federal grants	433,979	-	433,979
Local revenue:			
County contributions	614,681	-	614,681
Charges for services:			
Medicaid - Washtenaw CMH	11,693,349	-	11,693,349
Medicaid - other	321,168	-	321,168
Other charges for services	585,339	218,000	803,339
Other local revenue	23,159	-	23,159
	<u>17,850,931</u>	<u>218,000</u>	<u>18,068,931</u>
Operating expenses			
Mental health services:			
Personnel costs:			
Salaries and wages	5,361,768	-	5,361,768
Fringe benefits	1,769,497	-	1,769,497
Professional and contracted services	3,889,435	-	3,889,435
Client medical/dental	4,424	-	4,424
Client supplies	99,790	744	100,534
Communications	114,322	-	114,322
Conferences	51,637	-	51,637
Insurance	43,476	-	43,476
Lease expense and utilities	598,190	-	598,190
Local funds contribution	251,232	-	251,232
Medication	39,512	-	39,512
Membership dues	11,865	-	11,865
Operating supplies and other	134,616	-	134,616
Repairs and maintenance	168,820	-	168,820
Residential services	5,104,122	-	5,104,122
Transportation	99,283	-	99,283
Travel	127,340	-	127,340
Depreciation	138,117	-	138,117
	<u>18,007,446</u>	<u>744</u>	<u>18,008,190</u>
Operating income (loss)	<u>(156,515)</u>	<u>217,256</u>	<u>60,741</u>

Continued...

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

	Community Mental Health	Children's Pooled Funding Initiative	Total
	<u> </u>	<u> </u>	<u> </u>
Non-operating revenue (expense)			
Interest revenue	\$ 167,226	\$ 28,190	\$ 195,416
Interest expense	(1,080)	-	(1,080)
	<u> </u>	<u> </u>	<u> </u>
Total non-operating revenue	166,146	28,190	194,336
	<u> </u>	<u> </u>	<u> </u>
Net income before transfers	9,631	245,446	255,077
	<u> </u>	<u> </u>	<u> </u>
Transfers in	437,862	244,680	682,542
	<u> </u>	<u> </u>	<u> </u>
Transfers out	(244,680)	(437,862)	(682,542)
	<u> </u>	<u> </u>	<u> </u>
Change in net assets	202,813	52,264	255,077
	<u> </u>	<u> </u>	<u> </u>
Net assets, beginning of year, as restated	3,198,926	485,094	3,684,020
	<u> </u>	<u> </u>	<u> </u>
Net assets, end of year	<u>\$ 3,401,739</u>	<u>\$ 537,358</u>	<u>\$ 3,939,097</u>

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

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**
Statement of Cash Flows
For the Year Ended September 30, 2007

	Community Mental Health	Children's Pooled Funding Initiative	Total
Cash flows from operating activities			
Cash received from customers and contracts	\$ 17,655,515	\$ 216,000	\$ 17,871,515
Cash payments to suppliers for goods and services	(10,667,923)	(14,912)	(10,682,835)
Cash payments to employees for services	(7,131,265)	-	(7,131,265)
Net cash provided by (used) in operating activities	(143,673)	201,088	57,415
Cash flows from noncapital and related financing activities			
Transfers in	437,862	244,680	682,542
Transfers out	(244,680)	(437,862)	(682,542)
Net cash provided by (used) in noncapital and related financing activities	193,182	(193,182)	-
Cash flows from capital and related financing activities			
Purchase of capital assets	(514,982)	-	-
Principal payments	(11,214)	-	-
Interest payments	(1,080)	-	-
Net cash (used) in capital and related financing activities	(527,276)	-	-
Cash flows from investing activities			
Interest received	167,226	28,190	195,416
Increase (decrease) in cash and cash equivalents	(310,541)	36,096	(274,445)
Cash and cash equivalents, beginning of year	3,215,801	499,262	3,715,063
Cash and cash equivalents, end of year	\$ 2,905,260	\$ 535,358	\$ 3,440,618

Continued...

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY
Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2007**

	Community Mental Health	Children's Pooled Funding Initiative	Total
Reconciliation of operating income to net cash used in operating activities			
Operating loss	\$ (156,515)	\$ 217,256	\$ 60,741
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense	138,117	-	138,117
Changes in assets and liabilities:			
Accounts receivable	(99,331)	-	(99,331)
Due from other agencies and governments	(192,702)	(2,000)	(194,702)
Prepays	96,617	-	96,617
Accounts payable	106,943	(14,168)	92,775
Accrued payroll	553	-	553
Due to other agencies and governments	(30,180)	-	(30,180)
Unearned revenue	9,620	-	9,620
Compensated absences	(16,795)	-	(16,795)
	<u>\$ (143,673)</u>	<u>\$ 201,088</u>	<u>\$ 57,415</u>
Net cash used in operating activities	<u>\$ (143,673)</u>	<u>\$ 201,088</u>	<u>\$ 57,415</u>

Non-Cash Transactions:

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

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

NOTES to the FINANCIAL STATEMENTS

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Livingston County Community Mental Health Authority (the “Authority”) is a member of the Community Mental Health Partnership of Southeast Michigan. This affiliation is composed of the community mental health programs in Lenawee, Livingston, Monroe and Washtenaw Counties and was formed under the authority of the Intergovernmental Transfer of Functions and Responsibilities Act.

The affiliation was formally created by written agreement and official approval of the boards of the affiliates commencing on January 1, 2002. The agreement established a legal mechanism for the preparation, submission, and implementation of a Consolidated Application to the Michigan Department of Community Health (MDCH) for a Medicaid Prepaid Health Plan. Said plan was to ensure the continuation of necessary funding to each of the affiliates to provide services to Medicaid-eligible persons in their respective communities. The Community Mental Health Partnership of Southeast Michigan was successful in its application to MDCH.

The affiliation continues to operate under its original agreement. An “Affiliation Executive Committee” (AEC) supervises and administers the execution of the agreement. The AEC is comprised of the Executive Director from each participating Authority, including the Executive Director of the Washtenaw Community Health Organization (WCHO), and a representative from the University of Michigan. The WCHO is the lead agency for the affiliation. Operating under a master contract with the Michigan Department of Community Health for Medicaid Capitation Funds, the WCHO executes its fiduciary responsibilities for the receipt, management, and distribution of the Medicaid funds for the region through individual contracts with each of the affiliates.

The Authority is a separate legal entity that accounts for its own financial activity under its contracts with MDCH and the Community Mental Health Partnership of Southeast Michigan. As the community mental health services program (CMHSP) provider for Livingston, the Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are available to Livingston County residents who meet eligibility and need criteria. The Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

LIVINGSTON COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles.

The Authority has no component units (i.e., separately legal entities for which the Authority is financially accountable) nor is it reported as a component unit of another government.

B. Basis of Presentation

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

The Authority reports the following enterprise funds -

Community Mental Health Fund – This is the Authority’s primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Children’s Pooled Funding Initiative Fund – This fund accounts for the financial activities of the child and family collaborative funding arrangement providing wraparound services to residents of Livingston County.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from Medicaid and MDCH (state general fund), earned revenues, first and third party billings (charges for services), county appropriations and local revenues. Operating expenses include the cost of providing community mental health services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Equity

Cash and Cash Equivalents. The Authority's cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

State statutes authorize units of local government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Receivables. Accounts receivable are shown net of an allowance for uncollectibles, which is based on management's estimate using collection history trends. Amounts due from other governments consist primarily of amounts due from MDCH and AAM.

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

Capital Assets. Capital assets, which include buildings, furniture and fixtures, office equipment, and vehicles, are reported in the statement of net assets. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets, if any, are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized; improvements are capitalized.

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

The Authority's capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Vehicles	4
Equipment and furnishings	5-15
Computers	5
Buildings and improvements	10-27

Payables. Accounts payable consist of amounts due to vendors and services providers, along with management's estimate of the inpatient/residential liability. This estimate is based on the clients at each facility, the number of days each client is at each facility, and the daily rate charged for each facility.

Unearned Revenue. Unearned revenue represents that portion of the current-year MDCH contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to a percentage of the MDCH contract amount (7.5% for Medicaid and 5% for general fund), and may be categorized as either Medicaid savings, or general fund carry-forwards.

Medicaid savings retain their character under the contract with MDCH, and may be spent in the next fiscal year in accordance with a Medicaid Reinvestment Strategy. State general funds carried over must generally be spent in the following year.

Compensated Absences. All regular full-time employees and all regular part-time employees are eligible for paid leave. Paid leave may be used for vacation, sickness, or personal days. An employee accrues leave time according to the number of years of service rendered and the number of hours worked per week. The accrued leave is payable to an employee at the time of termination.

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

II. DETAILED NOTES

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Statement of Net Assets:	
Cash and cash equivalents	<u>\$ 3,440,618</u>
Bank deposits (checking accounts, savings accounts and certificates of deposits)	\$ 3,438,403
Cash on hand	<u>2,215</u>
Total	<u>\$ 3,440,618</u>

For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Authority's deposits may not be returned to it. At year end, the carrying value of the Authority's deposits was \$3,438,403 and the bank balance was \$4,009,759. Of the bank balance, \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 186,400	\$ 1,075	\$ -	\$ 187,475
Construction in progress	-	56,431	-	56,431
Total capital assets not being depreciated	186,400	57,506	-	243,906
Capital assets being depreciated:				
Buildings and improvements	1,009,090	302,018	-	1,311,108
Computers and equipment	521,406	70,998	(175,108)	417,296
Furniture	48,910	-	-	48,910
Vehicles	180,164	84,460	(46,882)	217,742
Total capital assets being depreciated	1,759,570	457,476	(221,990)	1,995,056
Less accumulated depreciation for:				
Buildings and improvements	264,277	41,948	-	306,225
Computers and equipment	340,940	59,130	(175,108)	224,962
Furniture	23,019	3,261	-	26,280
Vehicles	162,658	33,778	(46,882)	149,554
Total accumulated depreciation	790,894	138,117	(221,990)	707,021
Total capital assets being depreciated, net	968,676	319,359	-	1,288,035
Total capital assets, net	<u>\$ 1,155,076</u>	<u>\$ 376,865</u>	<u>\$ -</u>	<u>\$ 1,531,941</u>

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

C. Long-term Debt

The Authority entered into installment contracts for the purchase of vehicles during the 2003 and 2004 fiscal years at interest rates of 0% and 9.5%, respectively. Both of these contracts were paid off during the 2007 fiscal year.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Compensated absences	\$ 180,877	\$ 135,945	\$ -	\$ 316,822
Vehicle purchase contracts	<u>11,214</u>	<u>-</u>	<u>(11,214)</u>	<u>-</u>
Total	<u>\$ 192,091</u>	<u>\$ 135,945</u>	<u>\$ (11,214)</u>	<u>\$ 316,822</u>

D. Lease Commitments

The Authority leases certain real and personal property under operating leases. Lease expense recorded for the year ended September 30, 2007 was \$382,601. Future minimum lease payments under these agreements as of September 30, 2007, are summarized as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2008	\$ 322,178
2009	252,045
2010	232,207
2011	223,010
2012	204,506
2013-2017	1,018,805
2018-2022	1,018,795
2023-2024	<u>399,500</u>
Total	<u>\$ 3,671,046</u>

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

III. OTHER INFORMATION

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Authority manages its risk exposures through commercial insurance. On risks which are commercially insured, settlements have not exceeded insurance coverage in any of the past three years.

B. MDCH Revenue and Economic Dependency

The Authority provides mental health services on behalf of the MDCH in accordance with a managed specialty supports and services contract (the “contract”). Under the contract, the Authority receives monthly capitation payments based on the number of the MDCH’s participants, regardless of services actually performed by the Authority. In addition, the MDCH makes fee-for-service payments to the Authority for certain covered services.

Revenues paid either directly or indirectly by the MDCH represent over 90% of the Authority’s total revenues and, therefore, the Authority is economically dependent on the revenues from the MDCH.

C. Use of Estimates

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

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

D. Retirement Plans

Defined Benefit Pension Plan. The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The Authority's contributions are recognized when due and a formal commitment to provide the contributions has been made.

Employees are not required to contribute to the plan. The contribution requirements for the Authority are determined by the actuary. The employer contributions consist of the actuarial determined normal cost and a portion of unfunded liability (29-year amortization).

For the year ended September 30, 2007, the Authority's annual pension cost was \$423,816, which equals the required contribution. A level of percentage payroll amortization is used to determine the required contribution. The actuarial assumption included (a) 8% investment rate of return; and (b) projected salary increases of 4.5% per year.

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	Funded Ratio Total	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
12/31/04	\$ 7,135,864	\$ 8,132,652	\$ 996,788	88%	\$ 4,729,406	21%
12/31/05	7,938,795	8,894,129	955,334	89%	4,734,889	20%
12/31/06	9,418,586	10,228,558	809,972	92%	4,849,096	17%

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Recognized
9/30/2005	\$ 424,704	100%
9/30/2006	421,404	100%
9/30/2007	423,816	100%

Defined Contribution Retirement Plan. Effective January 1, 1999, the Authority elected to opt out of the federal social security system by a vote of the Authority's employees. Under this arrangement, provided that employees are covered under a qualifying retirement plan, no payments are required for social security, however, Medicare coverage and payments are required. All employees of the Authority are eligible to participate in this Plan.

Employee contributions to this defined contribution retirement plan are at a rate of 6.2% of gross wages; employer contributions are at a rate of 5.69% of gross wages. Under this plan, all contributions are immediately vested with the employee. During the year ended September 30, 2007, employer contributions totaled \$305,618.

E. Contingent Liabilities

Amounts received or receivable from grantor/contract agencies are subject to audit and potential adjustment by those agencies, principally the state and federal governments. Any disallowed costs, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of costs which may be disallowed by the grantor or contract agencies cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

The Authority is periodically a defendant in various lawsuits. Although the outcome of such lawsuits currently pending or threatened, if any, is not presently determinable, it is the opinion of the Authority's management and counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

**LIVINGSTON COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

F. Restatement

Previously, the Authority's operations were reported as governmental funds on the modified accrual basis of accounting and then adjusted to the accrual basis of accounting for reporting, under GASB Statement No. 34, as governmental activities in the government-wide financial statements. Effective with the financial statements for the year ended September 30, 2007, the Authority has significantly simplified its financial reporting by converting its funds from governmental to enterprise funds, which follow the accrual basis of accounting. Accordingly, the beginning net assets of the enterprise funds are equal to the prior year ending net assets of the governmental activities.

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

March 28, 2008

To the Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the financial statements of the *Livingston County Community Mental Health Authority* as of and for the year ended September 30, 2007, and have issued our report thereon dated March 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition/Finding:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of the Authority in a separate letter dated March 28, 2008.

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

This report is intended solely for the information and use of the Livingston County Community Mental Health Authority Board, management, others in the Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



March 28, 2007

To the Board of Directors of
Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the financial statements of the Livingston County Community Mental Health Authority (the "Authority") for the year ended September 30, 2007, and have issued our report thereon dated March 28, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated September 28, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

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

Significant Accounting Policies

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

Accounting Estimates

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, the adjustments we proposed, whether recorded or unrecorded by the Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

This letter and the accompanying memorandum are intended for the use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Lehmann Hobson". The signature is written in black ink and is positioned below the closing text.

**Livingston County Community Mental Health Authority
Comments and Recommendations**

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of Livingston County Community Mental Health Authority as of and for the year ended September 30, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiency we noted that we consider to be a significant deficiency is described in our 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*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Other Matters

Review and Approval of Journal Entries

Criteria: Management is responsible for establishing effective internal controls to safeguard the Authority's assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the Authority's records in a way that bypasses normal internal controls. Accordingly, the Authority should have a system in place to ensure that all journal entries and similar adjustments made to the Authority's accounting records are reviewed and approved by an appropriate member of management independent of the preparer.

Condition/Finding: Currently, the Authority does not have a review and approval process for general journal entries.

**Livingston County Community Mental Health Authority
Comments and Recommendations**

For the Year Ended September 30, 2007

Cause: Suggestion for strengthening internal controls in this area had not been brought to the attention of management.

Effect: Frauds could occur and be concealed by general journal entries not subject to a review and approval process.

Recommendation/Comment: We recommend that management develop a policy so that journal entries are reviewed by a responsible official with knowledge of the Authority's operations and that both the preparer and reviewer initial and date each entry as evidence of this process.

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