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	Monroe County CMH Authority	Monroe

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
9/30/07	March 28, 2008	March 31, 2008

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
REHMANN ROBSON	517.787.6503		
Street Address	**City**	**State**	**Zip**
675 Robinson Road	Jackson	MI	49203
Authorizing CPA Signature	**Printed Name**	**License Number**	
Mark Kettner	Mark T. Kettner, CPA, CGFM	11673	

Basic Financial Statements

For the Year Ended September 30, 2007

REHMANN ROBSON

Certified Public Accountants

MONROE COMMUNITY
MENTAL HEALTH AUTHORITY

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REHMANN ROBSON
Certified Public Accountants
A member of THE REHMANN GROUP
an independent member of BAKER TILLY INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

March 28, 2008

To the Board of Directors
Monroe Community Mental Health Authority
Monroe, Michigan

We have audited the accompanying basic financial statements of the ***Monroe 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 Monroe 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.

Rehmann Robson

675 Robinson Road · P.O. Box 449 · Jackson, MI 49204 · Phone 517.787.6503 · Fax 517.788.8111 · www.rehmann.com

BASIC FINANCIAL STATEMENTS

MONROE COMMUNITY
MENTAL HEALTH AUTHORITY
Statement of Net Assets
Enterprise Fund
September 30, 2007

Assets		
Current assets:		
Cash and cash equivalents	$	4,841,821
Accounts receivable		455,164
Due from other governments/agencies		553,851
Prepaid items		301,862
Total current assets		6,152,698
Noncurrent assets:		
Capital assets not being depreciated		54,000
Capital assets being depreciated, net		905,639
Total noncurrent assets		959,639
Total assets		7,112,337
Liabilities		
Current liabilities:		
Accounts payable		1,916,037
Accrued liabilities		395,822
Due to other governments/agencies		8,521
Current portion of capital lease payable		5,966
Total current liabilities		2,326,346
Noncurrent liabilities:		
Capital lease payable, net of current portion		497
Accrued compensated absences		213,497
Total noncurrent liabilities		213,994
Total liabilities		2,540,340
Net assets		
Invested in capital assets, net of related debt		953,176
Unrestricted		3,618,821
Total net assets	$	4,571,997

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

MONROE COMMUNITY
MENTAL HEALTH AUTHORITY
Statement of Revenues, Expenses and Changes in Net Assets
Enterprise Fund
For the Year Ended September 30, 2007

Operating revenues	
Medicaid	$ 18,104,638
State general fund indigent	4,496,712
Earned revenues, grants and federal programs	243,578
Adult benefit waiver	304,015
Charges for services	287,510
Local revenue:	
Community appropriations	997,803
Other local revenue	37,987
Total operating revenues	24,472,243
Operating expenses	
Community mental health services:	
Personnel	10,299,782
Mental health	15,903,393
Depreciation	241,875
Total operating expenses	26,445,050
Operating loss	(1,972,807)
Non-operating revenues	
Interest revenue	278,486
Change in net assets	(1,694,321)
Net assets, beginning of year, as restated	6,266,318
Net assets, end of year	$ 4,571,997

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

MONROE COMMUNITY
MENTAL HEALTH AUTHORITY
Statement of Cash Flows
Enterprise Fund
For the Year Ended September 30, 2007

Cash flows from operating activities	
Cash received from customers and contracts	$ 24,581,379
Cash payments to suppliers for goods and services	(15,603,593)
Cash payments to employees for services	(10,335,751)
Net cash used in operating activities	(1,357,965)
Cash flows used in capital and related financing activities	
Purchase of capital assets	(35,883)
Principal payments on capital lease	(5,966)
Net cash used by capital and related financing activities	(41,849)
Cash flows from investing activities	
Interest received	278,486
Decrease in cash and cash equivalents	(1,121,328)
Cash and cash equivalents, beginning of year	5,963,149
Cash and cash equivalents, end of year	$ 4,841,821
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (1,972,807)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	241,875
Changes in assets and liabilities:	
Accounts receivable	(35,015)
Due from other governments/agencies	144,151
Prepaid items	(159,295)
Accounts payable	687,993
Accrued liabilities	75,664
Due to other governments/agencies	(304,562)
Compensated absences	(35,969)
Net cash used in operating activities	$ (1,357,965)

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

MONROE COMMUNITY
MENTAL HEALTH AUTHORITY
Statement of Fiduciary Net Assets
Postemployment Benefits Trust Fund
September 30, 2007

Assets	
Investments	$ 1,210,386
Liabilities	-
Net assets held in trust for postemployment benefits	$ 1,210,386

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

MONROE COMMUNITY
MENTAL HEALTH AUTHORITY
Statement of Changes in Fiduciary Net Assets
Postemployment Benefits Trust Fund
For the Year Ended September 30, 2007

Additions		
Net increase in fair value of investments	$	-
Interest and dividends		187,775
Total investment income		187,775
Employee contributions		9,531
Total additions		197,306
Deductions		
Retiree health care benefits		345,593
Administrative and general expenses		8,902
Total deductions		354,495
Change in net assets		(157,189)
Net assets, beginning of year		1,367,575
Net assets, end of year	$	1,210,386

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

NOTES to the FINANCIAL STATEMENTS

MONROE COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Monroe 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 Monroe County, 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 Monroe 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.

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 as an enterprise fund (a proprietary fund type) which is 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 enterprise fund is the Authority's primary operating fund, and only major fund.

The fiduciary fund is used to account for resources that have been accumulated to pay for retiree health care benefits assets provided to qualified individuals.

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.

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), and local revenues. Operating expenses include the cost of providing mental health services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Equity

Deposits and Investments. The Authority's cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit. Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amounts which reasonably approximates fair value.

State statutes authorize the Authority 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 (except those with a fluctuating per share value). State statutes authorize pension and other employee benefit plans to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations.

Receivables. Accounts receivable are shown net of an allowance for uncollectibles, which is current set at zero based on actual collections following year end. Amounts due from other governments and agencies consist primarily of amounts due from MDCH and WCHO.

Prepaid Items. Payments made to vendors for services that will benefit periods beyond September 30, 2007, are recorded as *prepaid items* 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.

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

	Years
Vehicles	4
Equipment and furnishings	3-20
Buildings and improvements	15-25

Payables. Accounts payable and accrued liabilities 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.

Accrued Compensated Absences. The Authority allows employees to accumulate earned, but unused paid time off and carryover such unused time into the following year, up to a maximum of 216 hours. Upon termination of employment, paid time off balances are paid at the then current rate of pay. As of September 30, 2007, the liability for accrued compensated absences was $213,497.

II. DETAILED NOTES

A. Deposits and Investments

Deposits. At year-end, the carrying amount of the Authority's cash and cash equivalents, which consisted of balances in demand accounts and certificates of deposit, was $4,841,821; the related bank balance was $5,166,795. Of the bank balance $200,000 was covered by federal depository insurance and the remainder of $4,966,795 was exposed to custodial credit risk as it was uninsured and uncollateralized. 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.

Investments. At September 30, 2007, the Authority's fiduciary fund investments consisted of the following:

U.S. agencies	$ 289,066
Corporate bonds	151,718
Equities	698,413
Money markets	71,189
	$ 1,210,386

Credit Risk. All of the fiduciary fund investments in securities of U.S. agencies are were rated AAA by Moody's Investor Service. For the corporate bonds, $31,289 was rated by Moody's as AA3, $52,495 was rated as BA1, $41,819 was rated as B1, and $26,115 was unrated. The Authority does not have any policies regarding credit risk.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterpart, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions to be made on a cash basis or a delivery versus payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Concentration of Credit Risk. At September 30, 2007, the fiduciary fund investment portfolio, upon which the Authority places no limit on the amount that may be invested in any one issuer, was concentrated as follows:

Investment Type	Issuer	% of Portfolio
U.S. agencies	Federal Home Loan Mortgage Corporation	16.0%
	Federal Home Loan Bank	3.7%
	Federal National Mortgage Association	4.1%
Corporate bonds	General Motors Acceptance Corporation	4.3%

Interest Rate Risk. At September 30, 2007, maturities of fiduciary fund investments in debt securities were as follows:

	Years			
	Less Than 1	1 to 5	More Than 5	Total
U.S. agencies	$ 19,881	$ 24,961	$ 244,224	$ 289,066
Corporate bonds	29,887	95,716	26,115	151,718
	$ 49,768	$ 120,677	$ 270,339	$ 440,784

The Authority's investment policies are no more restrictive than State statutes.

B. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated -				
Land	$ 54,000	$ -	$ -	$ 54,000
Capital assets being depreciated:				
Buildings and improvements	693,832	-	-	693,832
Equipment and furnishings	1,251,453	35,883	-	1,287,336
Vehicles	784,676	-	(302,233)	482,443
Total capital assets being depreciated	2,729,961	35,883	(302,233)	2,463,611
Less accumulated depreciation for:				
Buildings and improvements	(207,310)	(27,755)	-	(235,065)
Equipment and furnishings	(815,045)	(159,519)	-	(974,564)
Vehicles	(595,975)	(54,601)	302,233	(348,343)
Total accumulated depreciation	(1,618,330)	(241,875)	302,233	(1,557,972)
Total capital assets being depreciated, net	1,111,631	(205,992)	-	905,639
Total capital assets, net	$ 1,165,631	$ (205,992)	$ -	$ 959,639

C. Operating Leases

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations and, therefore, the lease agreements are not reflected in the financial statements. At year-end, the Authority was committed, subject to cancellation provisions, for rental payments under operating leases (*not including the lease commitment described in Note D*) as follows:

Year Ending September 30,	Amount
2008	$211,968
2009	180,650
2010	170,732
2011	119,447

D. Lease Commitment

The Authority has entered into a long-term operating lease with the Monroe County Building Authority for the lease of renovated office space on Raisinville Road in Monroe. The lease does not satisfy the applicable criteria to be recorded as a capital lease. Future minimum lease payments under this agreement as of September 30, 2007, are summarized as follows:

Year Ending September 30,	Amount
2008	$ 205,923
2009	332,146
2010	326,664
2011	320,895
2012	314,840
2013-2017	1,472,891
2018-2022	1,272,158
2023-2027	1,009,216
2028-2032	855,985
2033	142,664
Total	$ 6,253,382

E. Long-term Debt

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

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Capital lease	$ 12,429	$ -	$ (5,966)	$ 6,463	$ 5,966
Compensated absences	249,466	588,012	(623,981)	213,497	-
	$ 261,895	$ 588,012	$(629,947)	$ 219,960	$ 5,966

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. Economic Dependency

Revenues paid either directly or indirectly by the MDCH, including Medicaid funds passed-through WCHO and State general fund monies, represent over 92.4% of the Authority's total revenues (and 85.5% of total expenses); as such, 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 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.

D. Postemployment Benefits

The Authority provides certain health care benefits to all employees who retire from the Authority. At such time that participants become Medicare eligible, the benefits under the Plan change to Medicare supplemental coverage. Plan provisions are established and may be amended by the Authority Board of Directors, subject to applicable collective bargaining agreements.

The Authority has established a Retiree Health Care Fund (a fiduciary fund) with the intent of pre-funding postemployment health care benefits. Annual employer contributions to fund the Plan, if any, are currently on a pay-as-you-go basis with the intent of building the fund for purposes of paying future benefits. No employer contributions were made to the Plan for the year ended September 30, 2007; benefits totaling $345,593 were paid from the Plan during the year. The Authority is not yet required to, and has not yet. adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

E. Retirement Plans

Defined Benefit Pension Plan. Substantially all employees of the Authority are covered by the Monroe County Employees Retirement System (the "System"), a single-employer defined benefit pension plan of which the Authority is a separate division. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Monroe County Board of Commissioners establishes and amends the benefit provisions of the participants in the System. A publicly available financial report is issued by the System that includes financial statements and required supplementary information. That report may be obtained by writing to the Monroe County Employees Retirement, 125 East Second Street, Monroe, Michigan 48161.

The Authority is required to contribute at an actuarially determined rate; the current rate is 3.41% of annual covered payroll. Authority employees are not required to contribute. The contribution requirements for the System are established and may be amended by the System Board of Trustees.

For the year ended September 30, 2007, the Authority's annual pension cost of $184,670 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 7.0%; (b) projected salary increase of 5.0% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 7.0% per year, depending on age, attributable to seniority/merit.

The actuarial value of System assets was determined on the basis of a valuation method that assumes the plan earns the expected rate of return, and includes an adjustment to reflect fair value. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis.

Three-Year Trend Information – Authority Contributions

Annual Years Ended September 30,	Pension Cost (APC)	Percentage Contributed	Net Pension Obligation
2005	$ -	100%	$ -
2006	31,742	100	-
2007	184,670	100	-

Schedule of Funding Progress – System Totals (in thousands)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Overfunded AAL (OAAL)	Funded Ratio Total	(c) Covered Payroll	((b-a)/c) OAAL as a Percentage of Covered Payroll
12/31/04	$ 18,896,231	$13,087,335	$ 5,808,896	144.4%	$ 6,054,092	95.9%
12/31/05	19,220,902	14,917,084	4,303,818	128.9%	6,348,339	67.8%
12/31/06	20,059,595	16,724,362	3,335,233	119.9%	5,415,543	61.6%

Defined Contribution Retirement Plan. When the Authority became a separate legal entity on January 1, 1997 and qualified as a new governmental employer, the decision was made 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 is required. This election to opt out of the social security system applies only to full time Authority employees; all other employees remain within the social security system.

Employee contributions to defined contribution retirement plan are at a rate of 6.2% of gross wages; employer contributions are at a rate of 5.0% of gross wages. Under this plan, all contributions are immediately vested with the employee. During the year ended September 30, 2007, employer contributions totaled $361,221.

F. 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.

F. Restatement

Previously, the Authority's operations were reported as a governmental fund 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 operating fund from a governmental to an enterprise fund, which follows the accrual basis of accounting. Accordingly, the beginning net assets of the enterprise fund are equal to the prior year ending net assets of the governmental activities.

*** * * * * ***

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
Monroe Community Mental Health Authority
Monroe, Michigan

We have audited the basic financial statements of the ***Monroe 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 the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified two deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

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

Criteria: Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Authority'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 fund financial statements including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many similar-sized entities, the Authority has historically relied on its independent external auditors to assist in preparing the financial statements and footnotes as part of its external financial reporting process.

Cause: This condition was caused by the Authority'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 Authority lacks internal controls over the preparation of its financial statements in accordance with GAAP, and instead relied, in part, on its external auditors for assistance with this task.

View of Auditee: 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.

Finding 2007-2: Material Audit Adjustments

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the Authority's general ledger to the appropriate balances. These adjustments included correcting beginning equity accounts, clearing unsupported prior year payable accruals, and properly recording capital asset transactions.

Cause: This condition was the result of various oversights by management (primarily, prior financial management staff) in reconciling the general ledger and closing out the fiscal year and uncertainty by current financial management staff as to final adjustments to be made.

Effect: As a result of this condition, the Authority’s internal accounting records were initially misstated by amounts material to the financial statements. Accordingly, we believe there is more than a remote likelihood that a material misstatement of the financial statements could exist and not be prevented or detected by the entity’s internal control.

Recommendation: We recommend that the Authority carefully evaluate its existing control environment and make such additions or changes as it deems appropriate to reduce the risk that misstatements will not be prevented or detected by the Authority's management.

View of Auditee: The Authority has made personnel changes in the Finance Department and expects improved financial management throughout the year and at year-end.

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

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

Compliance and Other Matters

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

We noted certain matters that we have reported to the management of the Authority in a separate letter dated March 28, 2008.

The Authority’s responses to the findings identified in our audit are described above. We did not audit management’s response and, accordingly, we express no opinion on it.

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

Rehmann Robson

March 28, 2008

To the Board of Directors of the
Monroe Community Mental Health Authority
Monroe, Michigan

We have audited the financial statements of the Monroe Community Mental Health 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 29, 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 enterprise 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.

- Management's estimate of the collectibility of first and third party receivables based on historical experience and the aging of current receivables.

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). As described in our report finding on audit adjustments, we proposed seven journal entries, all of which were recorded by management, which in our judgment, had 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.

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, 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,

Rehmann Robson

Monroe 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 the Monroe 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 deficiencies we noted that we consider to be significant deficiencies are 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.

<u>Other Matters</u>

Independent Review and Approval of General Journal Entries. Currently, the Authority has no independent review and approval process for general journal entries. Because general journal entries are convenient mechanism throughout which fraudulent activity can be concealed, it is highly advisable that all general journal entries be reviewed and approved by a person independent of preparing and posting the entry. Such review and approval needs to be documented (by initialing and dating the entry) and should ensure that appropriate source documents are present to support the purpose and dollar amount of the entry.

General Condition of Accounting Records, Year End Closing and Audit Preparation. The start of the audit was delayed almost two months to allow for the Authority's then newly hired Finance Director (and new finance staff) to update the accounting records through year-end and properly analyze and adjust account balances for the annual closing in preparation for the audit. In the end, these efforts and results were favorable, however, it this process caused unreasonable delays and costs for the auditors as well as the affiliation. Accordingly, the Authority needs to exercise due professional care to ensure that its financial management responsibilities are discharged on a timely basis.

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