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AUDIT-RELATED COMMUNICATIONS

To the Board of Directors
Northeast Michigan Community Mental Health Authority

We have audited the financial statements of the business-type activities, the major fund and the aggregate remaining fund information of the Northeast Michigan Community Mental Health Authority (the "Authority") for the year ended September 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 31, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Compliance

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. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We also performed a compliance examination in accordance with *CMH Compliance Examinations Guidelines*, issued by the Michigan Department of Community Health, and will issue a separate report on that examination.

Internal Controls

In planning and performing our audit of the financial statements of the Authority, 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 that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

We have issued 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* thereon dated January 21, 2013.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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: the useful lives of fixed assets in determining depreciation expense and the cash settlement under State contracts.

Management's estimate of depreciation expense is based on management's approved capitalization policy detailing the useful lives of its fixed assets. Management's estimate of initial cash settlements under State contracts are based on procedures provided by the Michigan Department of Community Health. We evaluated the key factors and assumptions used in determining depreciation expense and managed care cash settlements in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. You may find Note B related to cash to be particularly sensitive.

No Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not have any misstatement during our audit.

No Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 21, 2013.

Management 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 Authority'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.

Other Audit Findings or Issues

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.

The Financial Reporting Entity

In March 2011, the Governmental Accounting Standards Board ("GASB") issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, effective for periods beginning after June 15, 2012. This Statement amends accounting and financial reporting standards for including, presenting and disclosing information about governmental component units, including equity interests. The Statement's most significant effects include modifying the requirements for including component units based on fiscal dependency. Under the Statement, both fiscal dependence and a financial benefit or burden relationship must be present between a primary government and a component unit. We recommend the Authority review the current relationships with any dependent agencies and consider whether any changes will be needed under the new standard.

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position

In June 2011, the Governmental Accounting Standards Board ("GASB") issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, effective for periods beginning after December 15, 2011. Deferred outflows are defined as a consumption of net assets by the government that is applicable to future reporting periods, and deferred inflows are defined by the acquisition of net assets by the government that are applicable to future reporting periods; however, both elements are considered distinct from assets and liabilities, and generally do not include prepaid expenditures or deferred revenues.

The Statements also redefine the residual amount of all other elements presented in the statement of net assets as *net position*, and no longer net assets. The resulting effect of these Statements is that the previously presented statement of net assets becomes the *statement of net position*, and is composed of assets and deferred outflows equaling liabilities, deferred inflows and net position.

Auditor Independence

Government Auditing Standards, commonly referred to as the Yellow Book, have been updated for periods ending after December 15, 2012 for auditor independence and documentation requirements. Auditors will be required to evaluate and document whether management of the Authority has the skills, knowledge and experience to oversee any nonaudit services, such as the preparation of the financial statements, in order for the auditor to remain independent in providing the nonaudit services. Auditors must be independent for the entire fiscal year under audit. We will be discussing this with management of the Authority during the planning for the audit of the year ending September 30, 2013.

We wish to thank the staff of Northeast Michigan Community Mental Health Authority for their assistance during the audit.

This information is intended solely for the use of Board of Directors and management of Northeast Michigan Community Mental Health Authority, and is not intended to be and should not be used by anyone other than these specified parties.

We commend the Authority for its excellent recordkeeping system and appreciate the opportunity to serve the Northeast Michigan Community Mental Health Authority. If you have any question, or if we can be of further service, please feel free to contact us.

Dennis, Gartland & Niergarth

January 21, 2013