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AUDIT-RELATED COMMUNICATIONS

To the Board of Directors
Northeast Michigan Community Mental Health Authority

We have audited the financial statements the business-type activities, the major fund and the aggregate remaining fund information of Northeast Michigan Community Mental Health Authority (the "Authority") for the year ended September 30, 2013. 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 December 4, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Compliance and Internal Controls

As part of obtaining reasonable assurance about whether Authority's financial statements are free from material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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.

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.

In planning and performing our audit of the financial statements of the Authority, we considered the Authority's internal control over financial reporting (internal control) to determine the audit 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 February 28, 2014.

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. The Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65: *Items Previously Reported as Assets and Liabilities*, for the year ended September 30, 2013. The statements had no significant effect on the financial statements of the Authority. The application of existing policies was not changed during 2013. 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 estimate affecting the financial statements were the useful lives of fixed assets in determining depreciation expense, incurred but not reported employee health claims, and the cash settlement under state contracts.

Management's estimate of the depreciation expense is based on management's approved capitalization policy detailing the useful lives of its fixed assets. Management's estimates of incurred but not reported employee health claims is based on information provided by Blue Cross Blue Shield. 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 to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures 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 clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 February 28, 2014.

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.

Financial Reporting for Pension Plans

In June 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans administered through trusts, and Statement No. 68, *Accounting and Reporting for Pensions*, which revises and establishes new accounting and financial reporting requirements for most governments that provide their employees with pension benefits. The Statements expand note disclosures. Statement 67 is effective for fiscal years beginning after June 15, 2013. Statement 68 is effective for fiscal years beginning after June 15, 2014. Because the Authority has Defined Contribution pension plans, the effect of the statements will only increase the disclosure requirements, with no additional liability required to be reported.

Government Combinations and Disposals of Government Operations

In January 2013, the Governmental Accounting Standards Board ("GASB") issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The Statement requires the use of carrying value to measure assets and liabilities in a government merger; acquisition value in the measurement of assets acquired and liabilities assumed in an acquisition; and carrying value to measure the assets and liabilities in a transfer of operations. The Statement also provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. The requirements of the standard are effective for periods beginning after December 15, 2013, and should be applied on a prospective basis.

Nonexchange Financial Guarantees

In April 2013, the Governmental Accounting Standards Board ("GASB") issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. A nonexchange financial guarantee occurs when a government extends a financial guarantee for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximate value in exchange. The statement requires governments that extend these guarantees recognize a liability if quantitative factors and historical data, if any, indicate it is more likely than not that the government will be required to make a payment on the guarantee. The liability is measured at the discounted present value of the best estimate of future outflows expected under the guarantee. The statement requires the government that has issued the obligation guaranteed to recognize revenue to the extent of the reduction in its guaranteed liabilities, or when released as an obligor on the obligation. The provision of the Statement are effective for reporting periods beginning after June 15, 2013.

Governmental Audit Quality Center Auditee Resource Center

Dennis, Gartland & Niergarth is a member of the American Institute of CPA's ("AICPA") Governmental Audit Quality Center ("GAQC"), which entitles us with access to key information and comprehensive resources that we use to help ensure our compliance with appropriate professional standards and laws and regulations that affect our audits. The GAQC has recently launched a new Auditee Resource Center, which is intended to assist procurers of audit services (i.e., auditees). The Auditee Resource Center includes information, practice aids, tools and other resources such as articles, archived GAQC web events, and access to certain GAQC Alerts, that should be of interest and benefit to auditees. Topics covered include information that will be relevant to auditees that undergo: (1) government or not-for-profit organization ("NPO") financial statement audits; (2) audits performed under *Government Auditing Standards* (referred to as Yellow Book audits); (3) audits of Federal expenditures made by governments and NPOs (referred to as single audits); and (4) other Federally required compliance audits.

All resources available through the Auditee Resource Center are open to the public. You may access the Auditee Resource Center through the GAQC Web site at: www.aicpa.org/GAQC. Look for the link to the Auditee Resource Center under the "Quick Links" tab on the left side of the GAQC home page. We appreciate your business and are happy we can share the benefits of our GAQC membership with you.

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Northeast Michigan Community Mental Health Authority
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This information is intended solely for the use of Board of Directors and management of the 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

February 28, 2014