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AUDIT RELATED COMMUNICATIONS

To the Board of Directors of the
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 for the year ended September 30, 2008, and have issued our report thereon dated January 26, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated October 3, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Northeast Michigan Community Mental Health 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 Northeast Michigan Community Mental Health 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 29, 2008.

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Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Northeast Michigan Community Mental Health 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 the year ended September 30, 2008. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 was: the useful lives of fixed assets in determining depreciation expense.

Management's estimate of depreciation expense is based on management's assumptions about the useful lives of its fixed assets. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is 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. 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 the financial statements taken as a whole.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 26, 2009.

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.

Eleven new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly-held corporations, these rules are intended to help audited entities strengthen their internal controls. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control

- Assess the effectiveness of internal control

- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures or inquiry)

- Consider "what could go wrong" in the financial statement process (evaluate the risks of financial statement errors)

- Link the results to specific further audit procedures

- Communicate a summary of the results of the auditor's work to those charged with governance (the Board of Directors of the Authority).

As you can see, auditors will spend significantly more time working with all aspects of your internal control. These new rules are not limited to the public sector – they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.). These new rules have impacted audited organizations in two ways: your finance staff has incurred more time and effort in preparation for the audit, and the audit process has required additional time.

Other Matters

1. **Recent Pronouncements.** The Governmental Accounting Standards Board in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way the Northeast Michigan Community Mental Health Authority District maintains its financial records:

   A. **GASB Statement No. 43 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.** This statement establishes uniform reporting standards for other postemployment benefit plans. The financial statements focus on reporting current financial information about plan net assets and required note disclosures include a brief plan description, a summary of significant accounting policies, and information about contributions and legally required reserves. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2009.

   B. **GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.** This statement will require governmental units to record the cost of benefits (such as health insurance, life insurance, etc) in the periods when the related services are received by the employer if these benefits are not provided for through a pension plan. This will require the Authority to accrue and report an actuarially computed liability for any future postemployment benefit other than pensions. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2010.

   C. **GASB Statement No. 49 - Accounting and Financial Reporting for Pollution Remediation Obligations.** This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This will require the Authority to capitalize pollution remediation outlays in the future. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2009.

   D. **GASB Statement No. 51 - Accounting and Financial Reporting for Intangible Assets.** This statement establishes consistent standards as to whether intangible assets including easements, timber rights and computer software should be considered capital assets for financial reporting purposes. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2010.

   E. **GASB Statement No. 52 - Land and Other Real Estate Held as Investments by Endowments**. This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of the endowments. Reporting land and other real estate held as investments at fair value enhances user's ability to meaningfully evaluate an entity's investment decisions and performance. The requirements of this statement are effective for financial statements of the Authority for the year ended September 30, 2009.

2. Issues Likely to Impact the Authority.

A. Government Deposit Insurance. Under Michigan Law, governmental units, including the Authority, are directed and limited where they may invest or deposit public funds. Depository institutions such as banks, credit unions, or savings and loans may offer FDIC insurance coverage.

The insurance coverage of an Authority's accounts depends upon the type of deposit. All time and savings deposits (which include NOW accounts, CD's, money market deposit accounts, and other interest-bearing accounts) held by an Authority in a particular insured depository institution within the State are added together and insured up to $250,000. Separately, all demand deposits (checking accounts) held in the same insured depository institution within the same State are added together and insured up to $250,000. Special rules apply to funds that are required to be set aside for debt owed to holders of notes or bonds – additional insured coverage may be available for the beneficial interest of each bondholder.

Recent market events have indicated that certain financial institutions, including some within the Midwest region, may be experiencing financial distress. In the event of a regulatory takeover of a financial institution, uninsured or underinsured depositors may not receive all of their funds back after the regulatory takeover.

We encourage the Authority to perform the necessary due diligence to assure itself that is has the protection and coverage it desires to protect its public funds.

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

This report is intended solely for the information and use of Northeast Michigan Community Mental Health Authority Board of Directors, Michigan Department of Treasury, Management, and others within the 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 questions, or if we can be of further service, please do not hesitate to contact us.

Dennis, Gartland & Niergarth

January 26, 2009