

**NORTHEAST MICHIGAN COMMUNITY
MENTAL HEALTH AUTHORITY**

Financial Statements

September 30, 2023

STRALEY LAMP & KRAENZLEIN P.C.

CONTENTS

	<u>Page</u>
Management’s Discussion and Analysis	i
Independent Auditor’s Report	1
Financial Statements	
Statement of Net Position	4
Statement of Revenues, Expenses, and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Independent Auditor’s 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>	19

Northeast Michigan Community Mental Health Authority

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of revenue, expenses and changes in net position provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

The Authority is using an allowable alternative approach to present its financial information. Governmental entities that have single programs are allowed to present a combined government-wide and fund financial statement by using a columnar format that requires no reconciliation between fund types. The operations of the Authority are therefore presented using an Enterprise Fund accounting methodology. Thus, the financial information is presented in a manner similar to a private business enterprise. It is the intent of management that this reporting approach gives the reader a clearer picture of its financial condition.

The Authority as a Whole

The table below shows a comparison of the net position of the Authority as of September 30, 2023 compared to the prior year.

	Total business-type activities	
	2022-23	2021-22*
Current and other assets	\$ 7,651,392	\$ 7,392,481
Non-current capital assets	5,261,564	4,175,219
Total assets	12,912,956	11,567,700
Current liabilities	4,665,786	4,211,109
Long-term debt outstanding	1,388,624	1,102,606
Total liabilities	6,054,410	5,313,715
Net Position		
Net investment in capital assets and capital leases	3,627,525	2,942,712
Restricted	67,236	61,004
Unrestricted	3,163,785	3,250,269
Total net position	\$ 6,858,546	\$ 6,253,985

*GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was adopted as of October 1, 2022. Required Supplemental Information (Management Discussion and Analysis) presented for the fiscal year ended September 30, 2022 has not been restated.

Unrestricted net position consists of \$1,103,742, an internally reserved amount to pay staff their earned leave pay, and \$2,060,043, an unreserved amount used to finance day-to-day operations. The \$2,060,043 used to finance day-to-day operations represents about 5.2% of current year expenditures, which is a decrease of 0.6% when compared with 2021-22.

Northeast Michigan Community Mental Health Authority

Management's Discussion and Analysis

The net position invested in capital assets increased \$684,813 from 2021-22. The net investment in capital assets represents 52.9% of total net position as of September 30, 2023, an increase of 5.8% when compared with 2021-2022.

As allowed by the Michigan Mental Health Code and the Authority's intergovernmental contracts, the Authority may establish internal service funds to reserve a portion of its cash balances to fund self-insurance risk. No funds are reserved in any internal service fund in either 2022-23 or 2021-22.

The Authority has designated a portion of its cash balance to fund 100% of its long-term debt obligations to pay for staff earned leave time. The Authority's total designated debt cash balance fund increased \$14,970, or 1.4%, as compared to a year ago.

The table below shows a comparison of the change in net position of the Authority as of September 30, 2023 compared to the prior year.

	Total business-type activities	
	2022-23	2021-22
Total revenues	\$ 40,445,807	\$ 37,841,852
Health and human service expenses:		
Mental health services expense	12,129,918	10,235,130
Developmental disability services expense	19,778,537	20,791,735
Other support services expense	4,745,396	3,973,599
Board administration expense	3,187,395	2,276,230
Total health and human service expenses	39,841,246	37,276,694
Change in net position	\$ 604,561	\$ 565,158

Total revenues and expenses increased proportionally, both experiencing a 6.9% increase in 2022-23 as compared to 2021-22.

Enterprise Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget once to accommodate a projected increase in funding of \$152,876 for the fiscal year. Budget increases included were an increase of \$84,126 in Northern Michigan Regional Entity (NMRE) incentive revenue, an increase of \$5,600 in interest revenue, an increase in Behavior Health Home funds of \$42,000, and projected increases of other revenues of \$21,150. There were no budget decreases included in the amendment. The Michigan legislature mandated a \$2.35 per hour wage increase to all direct care workers effective October 1, 2022. This increase has been passed through to all direct care workers (both contractual and employees).

Northeast Michigan Community Mental Health Authority

Management's Discussion and Analysis

During 2022-23, Medicaid benefit expenditures of \$31,149,236 were \$3,409,312 more than paid by the (NMRE). The NMRE holds the Medicaid and Healthy Michigan contracts with the Michigan Department of Health and Human Services (MDHHS) and maintains a risk fund to cover the cost of services that exceed funds paid. The NMRE will be reimbursed by the Authority for this shortage to be deducted from their allowable risk fund.

During 2022-23, actual Health Michigan Plan (HMP) benefit expenditures of \$1,848,684 were \$691,168 less than paid by the NMRE. The Authority will reimburse the NMRE for this underspending. It will net with the Medicaid amount listed above.

During 2022-23, actual Behavior Health Home (BHH) benefit expenditures of \$222,692 were \$56,380 more than paid by the NMRE. The NMRE will reimburse the Authority for this overspending. It will net with the Medicaid amount listed above.

During 2022-23, actual General Fund expenditures of \$991,619 were \$283,822 less than allocated by the MDHHS. The Authority was able to carry forward \$60,139 of General Funds into 2023-24. The Authority will owe MDHHS \$223,683 for the underspent General Funds.

The total change in net position of \$604,561 represents an overage of local funds primarily earned by the Authority's participation in the MDHHS Special Fund program which allows a CMH to utilize payments received from individuals and participating insurance companies (i.e., Medicare, Blue Cross Blue Shield, etc.) as local matching funds and from incentive payments received from insurance companies and the NMRE.

The Authority's net revenues were less than planned levels by \$200,651 during 2022-23. The net revenues are net of the amount owed to NMRE and MDHHS of \$2,774,524 and \$223,683, respectively, and the actual amount received was lower than budgeted.

The Authority's net expenditures were more than planned levels by \$1,750,620 during 2022-23. In 2022-23 the Authority overspent its contracted employees and services budget by \$1,217,498.

The Authority continued in making changes in 2022-23 due to funding, direct expenditures and regulations due to the COVID-19 pandemic. Prior to 2022-23, a large portion of the workforce was shifted to remote work and even though many staff were able to resume in person work in July of 2021, some services continued to be provided by tele-health. The increase of \$2.35 of the State's direct care wage pass through to all contract direct care workers and internal direct care worker's wages also continued. This always causes slight changes in financial reporting. Revenues were passed through the Board from the State to comply with the direct care wage. The 2022-23 required reporting to the State was altered to accommodate for reporting many changes as well. Some of these items will carry forward to 2023-24 and will be accounted for in a similar manner along with the new changes scheduled.

Northeast Michigan Community Mental Health Authority

Management's Discussion and Analysis

Capital/Leased Assets and Debt Administration

Capital assets are items costing more than \$5,000 per item with an estimated useful life exceeding one year. As of September 30, 2023, the Authority had \$8,512,415 invested in capital assets, including land, buildings and building/land improvements, equipment, vehicles, leasehold improvements, right-to-use leased buildings, and right-to-use SBITAs. This is an increase of \$1,559,044 or 22.4% as compared to 2021-22.

Capital assets purchased during fiscal year 2022-23 include new items for our computer network, many remodel and repair jobs on several of our group homes, and the replacement of 11 agency vehicles. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles. This also includes the addition of right-to-use SBITAs of \$210,103 as a result of the implementation of GASB Statement No. 96.

Economic Factors and Next Year's Budgets

The Authority's preliminary budget for 2023-24 is \$37,710,801. This is \$2,130,445 less than actual expenditures for 2022-23 and \$38,484 less than budgeted for 2022-23. The budget will be amended as needed to reflect changes in enrollment, federal and state insurance plans, and funding availability that normally impact the Medicaid and Healthy Michigan benefit plans.

The Authority plans to continue its strong emphasis on self-determined individualized arrangements for community support, employment, and independent living services for persons with serious mental illnesses or intellectual/developmental disabilities. The Authority is also anticipating an increase in prevention and treatment services for Veterans and persons with substance use disorders which co-occur with a serious and persistent illness, serious emotional disturbance and/or intellectual/developmental disability. All programs are reviewed on an ongoing basis to prioritize the needs of our clients and communities served and to keep expenditures in line with available funding.

The Authority is planning no new long-term debt borrowing in 2023-24.

Contacting the Authority's Management

This financial report is intended to provide all readers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Finance Office.

Independent Auditor's Report

To the Board of Directors
Northeast Michigan Community
Mental Health Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities, the major fund, and aggregate remaining fund information of Northeast Michigan Community Mental Health Authority (the "Authority") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund, and the aggregate remaining fund information of Northeast Michigan Community Mental Health Authority, as of September 30, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described in Note 1 to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as noted in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2024, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Straley Kamp & Kraenzlein P.C.

Alpena, MI
March 15, 2024

Northeast Michigan Community Mental Health Authority

Statement of Net Position

Proprietary Fund

September 30, 2023

Assets	<u>Enterprise Fund</u>
Current assets	
Cash and cash equivalents	\$ 1,696,077
Designated cash and cash equivalents	91,942
Accounts receivable	5,478,134
Beneficial interest	5,050
Inventory	39,877
Prepaid items	340,312
Total current assets	<u>7,651,392</u>
Non-current assets	
Designated cash and cash equivalents	1,011,800
Beneficial interest	9,436
Capital assets not being depreciated	80,000
Capital/right-of-use assets being depreciated/amortized, net	4,160,328
Total non-current assets	<u>5,261,564</u>
Total assets	<u>12,912,956</u>
Liabilities	
Current liabilities	
Accounts payable	3,370,349
Accrued payroll and payroll taxes	942,856
Unearned revenue	24,660
Current portion of lease payable	235,979
Current portion of long-term debt	91,942
Total current liabilities	<u>4,665,786</u>
Non-current liabilities	
Long-term lease payable, net of current portion	376,824
Long-term debt, net of current portion	1,011,800
Total long-term liabilities	<u>1,388,624</u>
Total liabilities	<u>6,054,410</u>
Net position	
Net investment in capital assets	3,627,525
Restricted	67,236
Unrestricted	3,163,785
Total net position	<u>\$ 6,858,546</u>

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

Northeast Michigan Community Mental Health Authority
Statement of Revenue, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended September 30, 2023

	<u>Enterprise Fund</u>
Operating revenue	
State contracts	\$ 37,850,274
Contributions from local units	624,760
Charges for services	1,233,215
Other revenue and reimbursements	727,293
	<u>40,435,542</u>
Operating expenses - Health and Human Services	
Mental health services	
Outpatient clinic and case management	5,179,045
Inpatient	2,164,796
Prevention	3,477,855
Community support	972,140
Behavior health and home	103,352
Employment	70,990
Other	161,740
Developmental disability services	
Residential	11,114,377
Community support	2,314,599
Supported living and housing	3,010,336
Employment	672,428
Clinical support and case management	2,426,285
Other	240,512
Other support services	4,745,396
Administration	3,187,395
	<u>39,841,246</u>
Total operating expenses	<u>39,841,246</u>
Operating income	594,296
Non-operating revenue (expenses)	
Interest revenue	9,026
Gain (loss) on beneficial interest	1,239
	<u>10,265</u>
Total non-operating revenue (expenses)	<u>10,265</u>
Change in net position	604,561
Net position, beginning of year	6,253,985
Net position, end of year	<u>\$ 6,858,546</u>

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

Northeast Michigan Community Mental Health Authority

Statement of Cash Flows

Proprietary Fund

For the Year Ended September 30, 2023

	<u>Enterprise Fund</u>
Cash flows from operating activities	
Cash received from providing services	\$ 33,731,754
Cash payments to suppliers and affiliates	(13,869,449)
Cash payments for personnel services	<u>(20,986,145)</u>
Net cash provided by operating activities	<u>(1,123,840)</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(1,884,580)
Issuance of lease liability	615,856
Principal and interest lease payments	<u>(250,016)</u>
Net cash used by capital and related financing activities	<u>(1,518,740)</u>
Cash flows from investing activities	
Proceeds from redemption of investments	750,000
Purchase of investments	(750,000)
Interest received	<u>9,026</u>
Net cash provided by investing activities	<u>9,026</u>
Increase in cash and cash equivalents	(2,633,554)
Cash and cash equivalents, beginning of the year	<u>5,433,373</u>
Cash and cash equivalents, end of the year	<u>\$ 2,799,819</u>
Cash and cash equivalents per the statement of net position	
Cash and cash equivalents	\$ 1,696,077
Designated cash and cash equivalents	<u>1,103,742</u>
	<u>\$ 2,799,819</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 594,296
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation/amortization	813,657
Interest paid on leases	20,268
Changes in assets and liabilities:	
Accounts receivable	(2,928,740)
Inventory	(13,381)
Prepaid items	35,475
Accounts payable	442,995
Accrued payroll and payroll taxes	(106,482)
Unearned revenue	3,102
Long-term debt	<u>14,970</u>
Net cash provided by operating activities	<u>\$ (1,123,840)</u>

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

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The Northeast Michigan Community Mental Health Authority (the “Authority”), is a multi-county governmental authority serving Alcona, Alpena, Montmorency and Presque Isle Counties, located in northeastern Michigan. The Authority provides community services to individuals diagnosed with severe mental illnesses, intellectual/developmental disabilities, and/or substance abuse conditions. Services provided by the Authority include inpatient treatment, residential services, case management, outpatient treatment, employment, supported living and housing, and prevention services. The Authority operates under a 12-member Board of Directors.

Reporting Entity - These financial statements represent the financial condition and the results of operations of the Authority. The Authority is not a component of any other reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 61, *The Financial Reporting Entity*. Based on these same criteria, management has not identified any potential component units requiring consideration for inclusion in the Authority’s financial statements.

Government-Wide and Fund Financial Statements - As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements. The Authority’s only major fund comprises the government-wide financial statements. Accordingly, this is presented in the statement of net position and the statement of revenue, expenses and changes in net position.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) 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 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, public policy, management control, accountability or other purposes.

The Risk Reserve Internal Service Fund (a proprietary fund type) is used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Health and Human Services (“MDHHS”). Pursuant to these contractual provisions, the Risk Reserve Internal Service Fund has not been presented in these financial statements as there is no current year activity or net position at September 30, 2023.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The government-wide proprietary fund 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. There has been no inter-fund activity for the year ended September 30, 2023.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (continued)

The Enterprise Fund is the Authority's primary operating fund, and only major fund. It accounts for all financial resources of the Authority, except those accounted for in another fund.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 MDHHS and first- and third-party payers. Operating expenses include the cost of providing mental health and intellectual/developmental disability services together with related support services and administration. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Investments - The Authority's cash consists of cash on hand, demand deposits and certificate of deposits with an original maturity date of twelve months or less. Designated cash and cash equivalents represent amounts held in reserve accounts as authorized by resolution of the Authority's Board. The Authority had no investments during the year ended September 30, 2023.

Receivables - Receivables consist primarily of amounts due from individuals and private or governmental insurance programs and grant reimbursements under the terms of contracts with other agencies, governments and organizations for services rendered. Receivables from first- and third-party payers are presented net of an allowance for uncollectible accounts as estimated by management. The allowance is \$4,600 at September 30, 2023.

Inventory and Prepaid Items - Inventory is valued at the lower of cost or net realizable value, primarily determined on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include buildings, improvements, equipment and vehicles are capitalized and reported in the financial statements. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Leasehold and building improvements	10-15
Equipment	5-7
Vehicles	4

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (continued)

Leases - The Authority is a lessee for noncancelable leases of several residential property and office facilities used to shelter and serve individuals in need. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset). The Authority recognizes lease assets and liabilities with an initial value that would be material to the users of the financial statements.

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets on the statement of net position.

Subscription Based Technology Arrangements - The Authority implemented Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, as of October 1, 2022.

The Authority now recognizes subscription-based information technology arrangements (SBITA) as intangible right-to-use assets for software arrangements on the statement of net position. The Authority does not have a SBITA liability to recognize on the statement of net position because the full amount of payments to the SBITA vendors is prepaid, consequently there is no liability to recognize for future payments. The software amortization expense is included on the statement of activities related to the Authority's intangible assets for the software arrangements, which is included as intangible right-to-use software arrangements in Note 5.

The initial subscription liability is measured at the present value of the subscription payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of the subscription payments made. The Authority has no future subscription payments expected to be paid during the subscription term.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (continued)

The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to subscriptions include how the Authority determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The Authority uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for subscriptions.
- The subscription term includes the noncancellable period of the subscription. In addition, the subscription term includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise the option) and options to terminate (if it is reasonably certain that the government or SBITA vendor will exercise that option).

The Authority has two software arrangements commencing August 1, 2023 and ending September 30, 2025. The Authority has no future payments due on the SBITA arrangements. There is no option to purchase the software. The Authority monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Unearned Revenue - The Authority reported unearned revenue in connection with resources that have been received, but not yet earned, including the portion of the current year MDHHS contract amount that may be carried-over to and expensed in subsequent fiscal years. Such carryover is generally limited to five percent of the MDHHS contract amount.

Compensated Absences - Reflects the accrual of compensated absences adjusted to current salary costs. Permanent employees earn annual leave based upon full or part-time status proportionate to the time worked. Annual leave is 100% vested when earned and may be accrued to a total of 360 hours. Employees are paid 100% of annual accumulated leave when they terminate employment. A small number of employees have accrued leave hours exceeding 360 as allowed by a revision in the leave policy in April 2000. Upon termination, these employees are paid a percentage of their unused leave balances exceeding 360 hours, depending upon the number of hours accumulated and their employment classification.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (continued)

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors grantors, laws or regulations of other governments. Unrestricted net position is the remaining net position that does not fall into any of the criteria for the previously defined categories. When both restricted and unrestricted resources are available for use, the Authority would use restricted resources first, then unrestricted resources. As of September 30, 2023, there was \$52,750 and \$14,486 of net position restricted for clients and held in a fund at the Community Foundation of Northeast Michigan, respectively.

MDHHS Revenue

MDHHS revenue is recognized as earned.

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Health and Human Services (“MDHHS”). Currently, the Authority contracts directly with the MDHHS for General Fund revenues to support the services provided for priority population residing in Alcona, Alpena, Montmorency and Presque Isle Counties. The Authority performs an annual settlement of General Funds with MDHHS.

Medicaid Revenue

Northeast Michigan Community Mental Health Authority receives Medicaid revenue from the Northern Michigan Regional Entity (the “NMRE”) Pre-Paid Inpatient Health Plan. The NMRE contracts directly with the MDHHS to administer Medicaid revenues for Medicaid-qualified services provided to the residents of the covered counties.

Use of Estimates in the Preparation of Financial Statements - 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Initial cash settlements under managed care contracts require substantial use of judgment and are subject to review by the Michigan Department of Health and Human Services. Accordingly, the reported amounts of revenue, deferred revenue and due from/to the State could change.

Change in Accounting Principle - As of October 1, 2022, the Authority adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. As a result, the Authority’s statement of net position now includes right-to-use SBITA assets.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 2 - Deposits and Investments

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Business-Type Activities</u>
Cash and cash equivalents	\$ 1,696,077
Designated cash and cash equivalents	<u>1,103,742</u>
	<u>\$ 2,799,819</u>

Cash and investments are comprised of the following at year-end:

Petty cash	\$ 3,150
Checking and savings accounts	2,046,669
Certificates of deposit (due within one year)	<u>750,000</u>
	<u>\$ 2,799,819</u>

Deposit Risk

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require, and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$2,226,179 of the Authority's bank balance of \$3,226,179 was exposed to custodial credit risk because it exceeded FDIC and NCUA Insurance limits as of September 30, 2023. The amount of custodial credit risk varies throughout the fiscal year. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC and NCUA insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate changes.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 2 - Deposits and Investments (continued)

Statutory Authority

The Authority is authorized by the State of Michigan to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the Authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Note 3 - Long-term Debt

The following is a summary of long-term debt transactions of the Authority for the year ended September 30, 2023:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Lease liability	\$ 226,693	\$ 615,856	\$(229,746)	\$ 612,803	\$ 235,979
Compensated absences	<u>1,088,772</u>	<u>14,970</u>	<u>-</u>	<u>1,103,742</u>	<u>91,942</u>
Total long-term debt	<u>\$1,315,465</u>	<u>\$ 630,826</u>	<u>\$(229,746)</u>	<u>\$ 1,716,545</u>	<u>\$ 327,921</u>

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 4 - Leases

The Authority is party to numerous leases. These leases are for residential property and office facilities used to shelter and serve individuals in need. Payments are generally fixed monthly rates with escalation in payments over the term of the lease.

Lease asset activity of the Authority is included in Note 5.

Future principal and interest payment requirements related to the Authority's lease liability at September 30, 2023 are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 235,979	\$ 18,531	\$ 254,510
2025	184,955	10,610	195,565
2026	119,173	4,697	123,870
2027	72,696	1,465	74,161
	<u>\$ 612,803</u>	<u>\$ 35,303</u>	<u>\$ 648,106</u>

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Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 80,000	\$ -	\$ -	\$ 80,000
Construction in progress	471,967	-	(471,967)	-
	551,967	-	(471,967)	80,000
Capital assets being depreciated				
Buildings	1,731,537	-	-	1,731,537
Building and land improvements	675,831	464,951	-	1,140,782
Leasehold improvements	381,432	194,608	-	576,040
Vehicles	1,689,964	528,555	(169,976)	2,048,543
Computer equipment	943,948	229,004	(35,185)	1,137,767
Client equipment	95,505	-	-	95,505
Other equipment	486,792	113,470	-	600,262
Right-to-use leased building	396,395	615,856	(120,375)	891,876
Right-to-use SBITAs	-	210,103	-	210,103
	6,401,404	2,356,547	(325,536)	8,432,415
Total capital assets being depreciated	6,401,404	2,356,547	(325,536)	8,432,415

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 5 - Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Accumulated depreciation/amortization				
Buildings	\$(1,022,212)	\$ (39,446)	\$ -	\$(1,061,658)
Building and land improvements	(324,931)	(29,430)	-	(354,361)
Leasehold improvements	(296,221)	(14,429)	-	(310,650)
Vehicles	(1,050,907)	(306,342)	169,976	(1,187,273)
Computer equipment	(500,433)	(119,735)	35,185	(584,983)
Client equipment	(94,614)	-	-	(94,614)
Other equipment	(320,764)	(41,448)	-	(362,212)
Right-to-use leased building	(173,884)	(234,931)	120,375	(288,440)
Right-to-use SBITAs	-	(27,896)	-	(27,896)
Total accumulated depreciation/ amortization	(3,783,966)	(813,657)	325,536	(4,272,087)
Capital assets being depreciated, net	2,617,438	1,542,890	-	4,160,328
Capital assets, net	\$ 3,169,405	\$ 1,542,890	\$ (471,967)	\$ 4,240,328

Depreciation and amortization expense of \$813,657 was charged entirely to a single Health and Human Services function.

Note 6 - Pension Plans

Defined Contribution Plan

The Authority has adopted a defined contribution retirement plan administered by Voya Institutional Trust Co. The Authority's plan covers all full-time employees. Employees may start contributing on the first month following their regular full-time employment. For participants with a full-time seniority date of at least December 1, 2003 they will be vested 100% immediately. All other participants will be vested 100% after three years of service. Forfeitures of non-vested participants are available to reduce future employer contribution and expenses. Employer contributions of up to 7.5% of gross wages are paid to the plan trustees on a biweekly basis at the same time that wages are paid. The covered payroll for the plan was \$13,301,373. Total employer contributions for the year ended September 30, 2023 were \$843,105, of which \$56,848 was accrued.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 6 - Pension Plans (continued)

Alternative Social Security Plan

The Authority contributes 5.7% of all non-union employees' salary to the plan. Employees are also required to contribute 6.7% of their salary to the plan. The contributions to the plan are made in lieu of federal social security contributions. Under this plan, employees are 100% vested in their account at inception. Employees of the Authority not eligible to participate in this plan are covered by the Federal Social Security System. The covered payroll for the plan was \$8,132,713. Total employer contributions for the year ended September 30, 2023 were \$463,879.

Note 7 - Contingencies

Under the terms of various federal and state grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2023.

Note 8 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee's injuries (workers compensation), as well as medical and death benefits provided to employees.

The Authority is a member in the Michigan Municipal Risk Management Authority ("MMRMA"). The MMRMA is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of MMRMA is to administer a risk management fund, which provides members with loss protection for general and property liability. The Authority has joined with numerous other governmental agencies in Michigan as a participant in MMRMA's pooled insurance program.

The Authority's coverage limits include \$15,000,000 for general liability, \$1,500,000 for vehicle damage and \$9,366,961 for buildings and personal property.

The Authority has purchased commercial insurance for all other risks of loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years, and there was no reduction of coverage in the current year.

The Authority provides medical benefits to its employees through self-insurance. Blue Cross Blue Shield is the third party administrator. The Authority has stop loss coverage for any claims exceeding \$150,000 per member.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 8 - Risk Management (continued)

The Authority has claims incurred but not paid at September 30, 2023. GASB Statement No. 10 requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The changes in claims in the year ended September 30, 2023 is as follows:

Estimate of claims payable, beginning of year	\$ (170,063)
Incurred claims and changes in estimates	(2,838,431)
Claim payments	<u>2,838,431</u>
Estimate of claims payable, end of year	<u>\$ (170,063)</u>

Note 9 - Community Foundation of Northeast Michigan Fund

The Community Foundation for Northeast Michigan (the “CFNEM”) carries certain funds which are for the benefit of the Authority. These funds are not included in the Authority’s financial statements as they are considered assets of the CFNEM, but limited amounts would be available upon a successful grant application to the Foundation’s Trustees. As of September 30, 2023, the Northeast Michigan Community Mental Health Fund had a balance of \$102,290, of which \$16,300 would be available upon a successful grant application.

Note 10 - Subsequent Events

Management has evaluated subsequent events through the date of the Independent Auditor’s Report, the date on which the financial statements were available to be issued.

Independent Auditor's 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*

To the Board of Directors
Northeast Michigan Community
Mental Health Authority

We have audited, in accordance with the 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, the financial statements of the business type activities, the major fund, and aggregate remaining fund information of **Northeast Michigan Community Mental Health Authority** (the "Authority"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, 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.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 financial statement. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Straley Lamp & Kraenzlein P.C.

March 15, 2024

Audit 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 Northeast Michigan Community Mental Health Authority (the "Authority") for the year ended September 30, 2023. 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 January 16, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Authority changed accounting policies related to subscription based software arrangements by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 96, *Subscription-Based Information Technology Arrangements*, in 2023. There was no effect on net position as a result of this accounting change. 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:

Management's estimate of useful lives of capital assets in determining depreciation expense, incurred but not reported, employee health care claims and the settlements under state contracts.

The financial statements disclosures are neutral, consistent, and clear.

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 each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, 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 March 15, 2024.

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.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Recent Pronouncements

The Governmental Accounting Standards Board (GASB) continues to issue pronouncements that affect local government accounting and financial reporting. Below is a brief summary of those new GASB Statements:

- A. GASB Statement No. 100, Accounting Changes and Error Corrections—an Amendment of GASB Statement No. 62** – This statement stipulates the accounting and financial reporting for (1) each type of accounting change and (2) error corrections with the objective of enhancing the accounting and financial reporting requirements and to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The statement establishes requirements for note disclosures, required supplemental information, and supplemental information. The requirements of

this statement are effective for reporting periods beginning after June 15, 2023 (the Authority's financial statements for the fiscal year ending September 30, 2024 fiscal year).

- B. GASB Statement No. 101, Compensated Absences** – This statement updates the recognition and measurement guidance of the existing standard under a unified model. Previously required financial statement note disclosure requirements have been amended within this statement. The requirements of this statement are effective for reporting periods beginning after December 15, 2023 (the Authority's financial statements for the fiscal year ending September 30, 2025 fiscal year).

- C. GASB Implementation Guide No. 2021-1, Implementation Guidance Update – 2021** – This Implementation Guide provides technical information on the application of several GASB pronouncements, including leases and capital assets. The guidance issued on capital assets changes the capitalization criteria previously utilized by governmental entities. Historically, governmental entities capitalized assets on an individual asset threshold. This new guidance includes a requirement to capitalize items purchased under the government's threshold for a group of assets purchased, if considered significant in aggregate. For example, in the past a government would not capitalize a \$900 laptop, even though they purchased 20 laptops. Going forward this group of laptops would be capitalized if, significant, considered in the aggregate. The requirements of this statement are effective for reporting periods beginning after June 15, 2023 (the Authority's financial statements for the fiscal year ending September 30, 2024 fiscal year).

Restriction on Use

This information is intended solely for the information and use of the Authority's governing body and management, and is not intended to be, and should not be, used by anyone other than these specified parties. We appreciate the opportunity to serve Northeast Michigan Community Mental Health Authority. If you have any questions, or if we can be of further service, please feel free to contact us.

We wish to thank the staff of Authority for their assistance during the audit.

Very truly yours,

Straley Lamp & Kraenzlein P.C.

March 15, 2024