# NORTHEAST MICHIGAN COMMUNITY MENTAL HEALTH AUTHORITY

Financial Statements

September 30, 2017

**STRALEY LAMP & KRAENZLEIN P.C.**

**CONTENTS**

## 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, 2017 compared to the prior year.

| | Total business-type activities | |
|---|---|---|
| | 2016-17 | 2015-16 |
| Current assets | $ 7,232,266 | $ 6,123,497 |
| Non-current assets | 1,765,571 | 1,977,245 |
| Total assets | 8,997,837 | 8,100,742 |
| Long-term debt outstanding | 799,889 | 768,309 |
| Other liabilities | 2,586,709 | 1,834,775 |
| Total liabilities | 3,386,598 | 2,603,084 |
| Net Position | | |
| Net investment in capital assets | 1,765,571 | 1,977,245 |
| Unrestricted | 3,845,668 | 3,520,413 |
| Total net position | $ 5,611,239 | $ 5,497,658 |

Unrestricted Net Assets consists of $872,575, an internally reserved amount to pay staff their earned leave pay, and $2,973,093, an unreserved amount used to finance day-to-day operations. The $2,973,093 used to finance day-to-day operations represents about 11.2% of current year expenditures, an increase of 1.2% as compared to 2015-16. The Authority's total net position improved by 2.1% as compared to 2015-16.

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 2016-17 or 2015-16.

The Authority has restricted a portion of its cash balance to fund 100% of its long-term debt obligations to pay for staff earned leave time. The Authority has no other long-term debt outstanding. The Authority's total Restricted Long-Term Debt fund increased $34,450 or 4.1% 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, 2017 compared to the prior year.

| | Total business-type activities | |
|---|---|---|
| | 2016-17 | 2015-16 |
| Total program revenues | $ 26,873,887 | $ 26,906,523 |
| Health and human service expenses: | | |
| Mental health services expense | 7,753,900 | 7,796,814 |
| Developmental disability services expense | 15,679,055 | 15,803,224 |
| Other support services expense | 1,841,179 | 1,936,155 |
| Board administration expense | 1,486,172 | 1,266,419 |
| Total health and human service expenses | 26,760,306 | 26,802,612 |
| Change in net position | $ 113,581 | $ 103,911 |

Total revenues decreased by 0.1% while total expenses decreased by 0.2% in 2016-17 as compared to 2015-16.

## Enterprise Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget once in September 2017 to accommodate a net decrease in funding of ($346,379) as compared to the prior year. The largest budget reductions were ($440,645) in Medicaid funds and ($23,672) in State Healthy Michigan funds. The largest budget increases were $102,712 in Applied Behavioral Analysis (Autism) funds and $152,144 in State General Funds primarily due to a $100,000 transfer received from affiliate AuSable Valley Community Mental Health Authority and a carryforward of prior year savings of $31,471.

During 2016-17, Medicaid benefit expenditures of $22,654,145 were ($15,043) more than paid by the Northern Michigan Regional Entity (NMRE). The NMRE holds the Medicaid, Healthy Michigan, and Autism 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 Authority will be reimbursed for this deficit by the NMRE from its allowable risk fund and prior year allowable Medicaid savings.

During 2016-17, actual Healthy Michigan Plan (HMP) benefit expenditures of $1,271,677 were ($127,991) more than paid by the NMRE. The Authority will be reimbursed for this deficit by the NMRE from its allowable risk fund and prior year allowable HMP savings.

During 2016-17, actual Autism benefit expenditures were $774,135, actual funding received was $338,733, resulting in a funding shortfall of ($435,402). The Authority will be reimbursed for this deficit by the NMRE from its allowable Medicaid risk fund and prior year allowable Medicaid savings.

During 2016-17, actual General Fund benefit expenditures of $770,302 were ($60,415) less than allocated by the MDHHS. To cover this shortfall, the Authority used $31,471 of State General Funds carried forward from 2015-16 and requested and received a one-time transfer of General Funds from affiliate AuSable Valley Community Mental Health Authority. This resulted in a surplus of $71,055 in unspent funds. Of the unspent amount, the Authority will lapse to the MDHHS $30,561 and will carry forward $40,494 into 2017-18 as allowed by its contract with MDHHS. General Funds are used to cover the cost of services for those that are uninsured or under insured.

The total change in net position of $113,581 represents unused 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.

The Authority's net revenues were above planned levels by $212,530 during 2016-17. The majority of this increase in planned revenue is attributable to the available risk funds and prior year funds carried forward by the NMRE that are necessary to cover the cost of mandated services required by the NMRE's contract with the MDHHS.

The Authority's net expenditures were above planned levels by ($98,949) during 2016-17. The largest Board approved items causing this overspending was for the purchase of computer equipment in the amount of $152,046. The Authority converted to a new Electronic Health Record and Billing software during 2016-17. This was done to improve compliance with documentation, monitoring, reporting, and warehousing of consumer protected health information requirements. This is expected to dramatically increase the productivity of staff and contractors who now have the ability to document their work in the field while serving clients rather than at an office based workstation.

## Capital Asset 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, 2017, the Authority had $4,963,703 invested in capital assets, including land, buildings, equipment, vehicles, and leasehold improvements. This is an increase of $41,292 or 0.8% as compared to 2015-16. The authority has no outstanding debt related to its capital assets.

Capital assets purchased during fiscal year 2016-17 included the upgrading of electronic routers and switching equipment at our Hillman, MI and Rogers City, MI office locations and the replacement of 5 agency vehicles. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles.

## Economic Factors and Next Year's Budgets

The Authority's preliminary budget for 2017-18 is $26,422,748. This is ($337,558) less than actual expenditures for 2016-17 and ($234,609) less than budgeted for 2016-17. This decrease is primarily due to projected revenue reductions in the Authority's Medicaid and General Fund managed care funding. This budget will be amended as needed to reflect changes in enrollment and funding that occur primarily in the Medicaid, Healthy Michigan Plan, and Autism benefit programs. In addition, changes in the federal and state Medicaid and Healthy Michigan Plan benefit programs are anticipated which are likely to decrease available funding. There has been a significant move of plan enrollees from the traditional Medicaid benefit program to the Healthy Michigan benefit program over the past year. The traditional Medicaid program pays significantly higher payment rates to managed care providers than the Healthy Michigan program does. It is anticipated that available funding will decrease.

During 2017, the State Legislature and Governor of Michigan approved a direct care worker wage pass through increase of $0.50 per hour to take effect on October 1, 2017 for those direct care workers employed or working for community mental health service providers in the state who perform specific duties. The pass through funds only pay for the additional wage approved by the mandate and does not cover other costs associated with payroll (i.e. social security tax, unemployment tax, pension and other costs that are based upon wages). Funding for the statewide wage increase mandate was estimated based upon services provided in prior years and is included in the managed care funds paid to the Authority. This mandated wage increase is being paid through to all direct care workers both directly employed by the Authority and to its contractors who have direct care workers meeting the mandate criteria.

The Authority plans to continue its strong emphasis on self-determined individualized arrangements for community supports, 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 suffering from significant addiction issues 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 2017-18.

## 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.

Straley Lamp & Kraenzlein P.C.
Certified Public Accountants

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northeast Michigan Community
Mental Health Authority

***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities and the major fund of ***Northeast Michigan Community Mental Health Authority*** (the "Authority") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

***Management's Responsibility 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; this includes 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.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of ***Northeast Michigan Community Mental Health Authority***, as of September 30, 2017, 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.

***Other Matters***

***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, 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 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 2, 2018 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Straley Lamp & Kraenzlein P.C.

Alpena, Michigan
March 2, 2018

## Northeast Michigan Community Mental Health Authority

Statement of Net Position
Proprietary Fund
September 30, 2017

| | Enterprise Fund |
|---|---|
| **Assets** | |
| Current assets | |
| Cash and cash equivalents | $ 3,883,652 |
| Designated cash and cash equivalents | 872,575 |
| Investments | 750,000 |
| Accounts receivable | 1,261,415 |
| Inventory | 16,517 |
| Prepaid items | 448,107 |
| Total current assets | 7,232,266 |
| Non-current assets | |
| Capital assets not being depreciated | 90,000 |
| Capital assets being depreciated, net | 1,675,571 |
| Total non-current assets | 1,765,571 |
| Total assets | 8,997,837 |
| **Liabilities** | |
| Current liabilities | |
| Accounts payable | 1,820,404 |
| Accrued payroll and payroll taxes | 647,023 |
| Deferred revenue | 46,596 |
| Current portion of long-term debt | 72,686 |
| Total current liabilities | 2,586,709 |
| Non-current liabilities | |
| Long-term debt, net of current portion | 799,889 |
| Total liabilities | 3,386,598 |
| **Net position** | |
| Net investment in capital assets | 1,765,571 |
| Unrestricted | 3,845,668 |
| Total net position | $ 5,611,239 |

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, 2017

| | Enterprise Fund |
|---|---|
| **Operating revenue** | |
| State contracts | $ 25,725,443 |
| Contributions from local units | 332,808 |
| Charges for services | 737,566 |
| Other revenue and reimbursements | 67,661 |
| Total operating revenue | 26,863,478 |
| **Operating expenses - Health and Human Services** | |
| Mental health services | |
| Outpatient clinic and case management | 3,588,313 |
| Residential | 985,521 |
| Inpatient | 964,138 |
| Prevention | 694,136 |
| Community support | 638,709 |
| Supported living and housing | 526,359 |
| Employment | 186,814 |
| Other | 169,910 |
| Developmental disability services | |
| Residential | 6,388,891 |
| Community support | 1,615,223 |
| Supported living and housing | 3,956,358 |
| Employment | 1,258,334 |
| Clinical support and case management | 2,292,744 |
| Other | 167,505 |
| Other support services | 1,841,179 |
| Board administration | 1,486,172 |
| Total operating expenses | 26,760,306 |
| Operating income | 103,172 |
| **Non-operating revenue (expenses)** | |
| Interest revenue | 10,409 |
| Change in net position | 113,581 |
| Net position, beginning of year | 5,497,658 |
| Net position, end of year | $ 5,611,239 |

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, 2017

| | Enterprise Fund |
|---|---|
| **Cash flows from operating activities** | |
| Cash received from providing services | $ 26,058,658 |
| Cash payments to suppliers and affiliates | (9,085,040) |
| Cash payments for personnel services | (16,097,842) |
| Net cash provided by operating activities | 875,776 |
| **Cash flows from capital and related financing activities** | |
| Purchase of capital assets | (120,098) |
| Proceeds from sale of capital assets | 50 |
| Net cash used by capital and related financing activities | (120,048) |
| **Cash flows from investing activities** | |
| Proceeds from redemptions of investments | 750,000 |
| Purchase of investments | (750,000) |
| Interest received | 10,409 |
| Net cash provided by investing activities | 10,409 |
| Increase in cash and cash equivalents | 766,137 |
| Cash and cash equivalents, beginning of the year | 3,990,090 |
| Cash and cash equivalents, end of the year | $ 4,756,227 |
| **Cash and cash equivalents per the statement of net position:** | |
| Cash and cash equivalents | $ 3,883,652 |
| Designated cash and cash equivalents | 872,575 |
| | $ 4,756,227 |
| **Reconciliation of operating income to net cash provided by operating activities** | |
| Operating income | $ 103,172 |
| Adjustments to reconcile operating income to net cash used by operating activities: | |
| Depreciation | 331,772 |
| Gain on sale of capital assets | (50) |
| Changes in assets and liabilities: | |
| Accounts receivable | (257,481) |
| Inventory | (879) |
| Prepaid items | (84,272) |
| Accounts payable | 624,204 |
| Accrued payroll and payroll taxes | 115,313 |
| Deferred revenue | 9,547 |
| Long-term debt | 34,450 |
| Net cash provided by operating activities | $ 875,776 |

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

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

**Northeast Michigan Community Mental Health Authority**

Statement of Fiduciary Assets and Liabilities

Agency Fund

September 30, 2017

| | |
|---|---|
| **Assets** | |
| Current assets | |
| Cash and cash equivalents | $ 38,937 |
| **Liabilities** | |
| Due to consumers | $ 38,937 |

The accompanying notes are an integral part of these 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 assets at September 30, 2017.

**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, 2017.

## 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 Cash Equivalents** - The Authority's cash consists of cash on hand and demand deposits. Designated cash and cash equivalents represent amounts held in reserve accounts as authorized by resolution of the Authority's Board.

**Investments** - The Authority's investments consist of certificates of deposit with initial maturities greater than three months.

**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 was $42,000 at September 30, 2017.

**Inventory and Prepaid Items** - Inventory is valued at cost, 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:

| Assets | Years |
|---|---|
| Buildings | 20-40 |
| Leasehold and building improvements | 10-15 |
| Equipment | 5-7 |
| Vehicles | 4 |

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –** (continued)

**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.

**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.

## NOTE 2 - DEPOSITS AND INVESTMENTS

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

| | Business-Type Activities | Fiduciary Fund | Total |
|---|---|---|---|
| Cash and cash equivalents | $ 3,883,652 | $ 38,937 | $ 3,922,589 |
| Restricted cash and cash equivalents | 872,575 | - | 872,575 |
| Investments | 750,000 | - | 750,000 |
| | $ 5,506,227 | $ 38,937 | $ 5,545,164 |

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

| | |
|---|---|
| Petty cash | $ 3,100 |
| Checking and savings accounts | 4,792,064 |
| Certificates of deposit (due within one year) | 750,000 |
| | $ 5,545,164 |

### 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, $4,732,986 of the Authority's bank balance of $5,732,986 was exposed to custodial credit risk because it exceeded FDIC and NCUA Insurance limits. 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.

## NOTE 2 - DEPOSITS AND INVESTMENTS – (continued)

### Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which required an entity to maximize the use of observable and minimize the use of unobservable inputs.

There are three (3) levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others.

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization’s own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The Authority’s investments are classified as the following on September 30, 2017:

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level | | | Total |
| | Level 1 | Level 2 | Level 3 | |
| Certificates of Deposit | $ - | $ 750,000 | $ - | $ 750,000 |
| | $ - | $ 750,000 | $ - | $ 750,000 |

## 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, 2017:

| | Beginning Balance | Increases | (Decreases) | Ending Balance | Due within one year |
|---|---|---|---|---|---|
| Compensated absences | $ 838,125 | 34,450 | - | $ 872,575 | $ 72,686 |

## NOTE 4 - LEASES

The Authority is party to numerous operating leases, for which aggregate rental expense was $260,492. These leases are for residential property and office facilities used to shelter and serve the needs of individuals served.

The following is a schedule of future minimum lease payments required under the operating leases that have initial or remaining terms as of September 30, 2017:

| September 30, | |
|---|---|
| 2018 | $ 176,710 |
| 2019 | 169,190 |
| 2020 | 171,097 |
| 2021 | 172,789 |
| 2022 | 149,476 |
| Thereafter | 194,250 |
| | $1,033,512 |

## NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Capital assets not being depreciated** | | | | |
| Land | $ 90,000 | $ - | $ - | $ 90,000 |
| Total capital assets not being depreciated | 90,000 | - | - | 90,000 |
| **Capital assets being depreciated** | | | | |
| Buildings | 1,910,237 | - | - | 1,910,237 |
| Building improvements | 439,535 | - | - | 439,535 |
| Leasehold improvements | 348,859 | - | - | 348,859 |
| Vehicles | 1,329,701 | 101,729 | (78,806) | 1,352,624 |
| Computer equipment | 386,522 | 18,369 | - | 404,891 |
| Client equipment | 98,985 | - | - | 98,985 |
| Other equipment | 318,572 | - | - | 318,572 |
| Total capital assets being depreciated | 4,832,411 | 120,098 | (78,806) | 4,873,703 |

## NOTE 5 - CAPITAL ASSETS – (continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Accumulated depreciation** | | | | |
| Buildings | (886,645) | (62,875) | - | (949,520) |
| Building improvements | (235,789) | (21,968) | - | (257,757) |
| Leasehold improvements | (148,647) | (29,827) | - | (178,474) |
| Vehicles | (995,922) | (177,017) | 78,806 | (1,094,133) |
| Computer equipment | (337,097) | (14,969) | - | (352,066) |
| Client equipment | (86,445) | (8,717) | - | (95,162) |
| Other equipment | (254,621) | (16,399) | - | (271,020) |
| Total accumulated depreciation | (2,945,166) | (331,772) | 78,806 | (3,198,132) |
| Capital assets being depreciated, net | 1,887,245 | (211,674) | - | 1,675,571 |
| **Capital assets, net** | **$ 1,977,245** | **$(211,674)** | **$ -** | **$1,765,571** |

Depreciation expense of $331,772 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 covering all full-time employees. 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 $9,401,368. Total employer contributions for the year ended September 30, 2017 were $642,039.

### *Alternative Social Security Plan*

The authority contributes 5.7% of all non-union employees' salary to the plan. Employees are also required to contribute 6.2% 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 $5,395,610. Total employer contributions for the year ended September 30, 2017, were $307,550.

## 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, 2017.

## 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 $8,869,421 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.

The Authority has claims incurred but not paid at September 30, 2017. 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 reasonable estimated.

The changes in claims in the year ended September 30, 2017 is as follows:

| | |
|---|---|
| Estimate of prepaid claims, beginning of year | $ (13,310) |
| Incurred claims and changes in estimates | (2,627,863) |
| Claim payments | 2,700,395 |
| Estimate of claims payable, end of year | $ 59,222 |

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# 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 the aggregate remaining fund information of ***Northeast Michigan Community Mental Health Authority*** (the "Authority"), as of and for the year ended September 30, 2017, 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 2, 2018.

## *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 over financial reporting 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



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identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

***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 2, 2018



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