

**NORTHEAST MICHIGAN COMMUNITY  
MENTAL HEALTH AUTHORITY**

Financial Statements

September 30, 2015

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

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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, 2015, 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.

### ***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*** 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 February 1, 2016 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.



February 1, 2016

## 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, 2015 compared to the prior year.

	Total business-type activities	
	2014-15	2013-14
Current assets	\$ 6,588,691	\$ 7,173,530
Non-current assets	2,124,359	2,413,143
Total assets	8,713,050	9,586,673
Long-term debt outstanding	776,536	774,879
Other liabilities	2,542,767	3,667,373
Total liabilities	3,319,303	4,442,252
Net position		
Net investment in capital assets	2,124,359	2,413,143
Unrestricted	3,269,388	2,731,278
Total net position	\$ 5,393,747	\$ 5,144,421

Unrestricted net assets consists of \$847,099, an internally reserved amount to pay staff their earned leave pay, and \$2,422,288, an unreserved amount used to finance day-to-day operations. The \$2,422,288 used to finance day-to-day operations represents about 9.1% of current year expenditures, an increase of 2.1% as compared to 2013-14. The Authority's total net position improved by 4.8% as compared to 2013-14.

**Northeast Michigan Community Mental Health Authority**

Management's Discussion and Analysis

As allowed by the Michigan Mental Health Code and the Authority's intergovernmental contracts, the Authority has established internal service funds to reserve a portion of its cash balances to fund self-insurance risk. No funds are reserved in this service fund in either 2014-15 or 2013-14.

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 \$1,807 or 0.2% 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, 2015 compared to the prior year.

	Total business-type activities	
	2014-15	2013-14
Total program revenues	<u>\$ 26,983,355</u>	<u>\$ 27,106,772</u>
Health and human service expenses:		
Mental health services expense	7,749,080	7,714,361
Developmental disability services expense	15,939,936	16,085,770
Other support services expense	1,738,858	1,817,368
Board administration expense	<u>1,306,155</u>	<u>1,317,961</u>
Total health and human service expenses	<u>26,734,029</u>	<u>26,935,460</u>
Change in net position	<u>\$ 249,326</u>	<u>\$ 171,312</u>

Total revenues decreased by 0.5% while total expenses decreased by 0.7% in 2014-15 as compared to 2013-14.

**Enterprise Fund Budgetary Highlights**

Over the course of the year, the Authority amended the budget once in May 2015 to accommodate a net increase in funding of \$78,715. The largest budget increases were additions of \$268,839 in State General Funds, \$295,796 in State Healthy Michigan Plan funds, and \$216,500 in reimbursable charges from other insurance programs. These budget increases were partially offset by budget decreases, the largest being a decrease of (\$747,620) in State/Federal Medicaid Funds.

## Northeast Michigan Community Mental Health Authority

### Management's Discussion and Analysis

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During 2014-15, actual Medicaid benefit expenditures of \$23,064,015 were \$27,041 less than allocated by the Northern Michigan Regional Entity (NMRE). The NMRE holds the Medicaid, Healthy Michigan, MICHild, and Autism contracts with the Michigan Department of Health and Human Services (MDHHS). These unused funds will be returned to the NMRE for future use as allowed by their contract with the MDHHS.

During 2014-15, actual General Fund expenditures of \$643,066 were \$115,456 less than allocated by the MDHHS. Of the unspent amount, the Authority transferred \$150,000 to three other Community Mental Health (CMH) providers including affiliates Northern Lakes CMH \$50,000, St Joseph County CMH \$50,000, and Central Michigan CMH \$50,000, to cover all or a portion of their General fund shortfalls. The Authority also used \$56,571 of State General Funds carried forward from 2013-14 on local client services and will carry forward \$22,027 of General Funds to use in 2015-16.

During 2014-15, actual Healthy Michigan Plan (HMP) expenditures of \$1,006,189 were \$595,289 less than allocated by the NMRE. These unused funds will be returned to the NMRE for future use as allowed by their contract with the MDHHS.

During 2014-15, actual MICHild expenditures exceeded revenues received by (\$9,002). The Authority will be reimbursed by the NMRE for this shortfall as allowed by its contract with the MDHHS.

During 2014-15, actual Autism expenditures were \$664,716. These costs will be 100% covered by the Authorities contract with the NMRE.

The change in net position of \$249,326 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 participating insurance companies (i.e. Medicare, Blue Cross Blue Shield, etc.) as local matching funds.

The Authority's net revenues were below planned levels by \$1,153,937 during 2014-15. The majority of this low revenue was due to under-utilization of the Healthy Michigan Plan contracts.

The Authority's net expenditures were below planned levels by \$1,602,268 during 2014-15. The majority of this under-spending was in staff wages and benefits \$705,680, contracted inpatient and residential service costs \$127,625, staff development costs \$50,219, and maintenance of agency buildings and vehicles \$105,880.

The Authority's budget plan was not amended late in the year to address an agreed upon 3 year cost reduction plan required by the NMRE. 2014-2015 was the 2<sup>nd</sup> year of a 3 year plan to reduce costs in preparation for 2015-16 and beyond when Medicaid funding is expected to be reduced significantly.

## **Northeast Michigan Community Mental Health Authority**

### **Management's Discussion and Analysis**

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#### **Capital Asset and Debt Administration**

As of September 30, 2015, the Authority had \$4,846,135 invested in capital assets, including land, buildings, equipment, vehicles, and leasehold improvements. This is an increase of \$11,383 or 0.2% as compared to 2013-14. The authority has no outstanding debt related to its capital assets.

The capital asset purchases during fiscal year 2014-15 were mainly for the replacement of Authority multi-user pooled vehicles, and leasehold improvements at the Light of Hope Clubhouse program building in Alpena. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles. The Authority replaced six vehicles during 2014-15.

#### **Economic Factors and Next Year's Budgets**

The Authority's preliminary budget for 2015-16 includes expenditures of \$27,589,418. This is \$855,389 more than actual expenditures for 2014-15 and (\$746,879) less than budgeted for 2014-15. This is primarily due to projected ongoing costs to continue services at final 2014-15 levels. This budget will need to be amended to reflect additional changes in funding that are anticipated related to the Medicaid, General Fund, Healthy Michigan Plan, MI Child and Autism benefit programs. The amounts of such changes are unknown at the time of this publication.

The Authority plans to continue to emphasize self-determined individualized arrangements for community supports, employment, and independent living services for persons with serious mental illnesses or developmental disabilities and will increase preventative and therapeutic services to children and young adults diagnosed with an Autism spectrum disorder. All programs will be reviewed thoroughly to determine what increases or reductions are necessary to keep expenditures in line with available funding.

The Authority is planning no new long-term debt borrowing in 2015-16.

#### **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.



**Northeast Michigan Community Mental Health Authority**

Statement of Net Position

Proprietary Fund

September 30, 2015

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<b>Assets</b>	<u>Enterprise Fund</u>
Current assets	
Cash and cash equivalents	\$ 4,340,225
Designated cash and cash equivalents	847,099
Investments	500,000
Accounts receivable	538,697
Inventory	18,039
Prepaid items	344,631
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Total current assets	6,588,691
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Non-current assets	
Capital assets not being depreciated	93,888
Capital assets being depreciated, net	2,030,471
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Total non-current assets	2,124,359
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Total assets	8,713,050
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<b>Liabilities</b>	
Current liabilities	
Accounts payable	1,452,794
Accrued payroll and payroll taxes	992,555
Deferred revenue	26,855
Current portion of long-term debt	70,563
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Total current liabilities	2,542,767
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Non-current liabilities	
Long-term debt, net of current portion	776,536
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Total liabilities	3,319,303
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<b>Net position</b>	
Net investment in capital assets	2,124,359
Unrestricted	3,269,388
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Total net position	\$ 5,393,747
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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, 2015

	<u>Enterprise Fund</u>
<b>Operating revenue</b>	
State contracts	\$ 25,776,101
Contributions from local units	273,824
Charges for services	814,301
Other revenue and reimbursements	<u>110,122</u>
Total operating revenue	<u>26,974,348</u>
<b>Operating expenses - Health and Human Services</b>	
Mental health services	
Outpatient clinic and case management	3,606,772
Residential	936,793
Inpatient	1,042,262
Prevention	622,200
Community support	582,063
Supported living and housing	636,540
Employment	187,006
Other	135,444
Developmental disability services	
Residential	6,995,992
Community support	1,854,458
Supported living and housing	3,534,730
Employment	1,293,010
Clinical support and case management	2,108,573
Other	143,623
Inpatient	9,550
Other support services	1,738,858
Board administration	<u>1,306,155</u>
Total operating expenses	<u>26,734,029</u>
Operating income	240,319
<b>Non-operating revenue (expenses)</b>	
Interest revenue	<u>9,007</u>
Change in net position	249,326
Net position, beginning of year	<u>5,144,421</u>
Net position, end of year	<u>\$ 5,393,747</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, 2015

	<u>Enterprise Fund</u>
<b>Cash flows from operating activities</b>	
Cash received from providing services	\$ 26,924,109
Cash payments to suppliers and affiliates	(10,320,711)
Cash payments for personnel services	(16,888,945)
Net cash provided by operating activities	<u>(285,547)</u>
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	(131,700)
Net cash used by capital and related financing activities	<u>(131,700)</u>
<b>Cash flows from investing activities</b>	
Proceeds from redemptions of investments	750,000
Purchase of investments	(500,000)
Interest received	9,007
Net cash provided by investing activities	<u>259,007</u>
Increase in cash and cash equivalents	(158,240)
Cash and cash equivalents, beginning of the year	<u>5,345,564</u>
Cash and cash equivalents, end of the year	<u>\$ 5,187,324</u>
<b>Cash and cash equivalents per the statement of net position:</b>	
Cash and cash equivalents	\$ 4,340,225
Restricted cash and cash equivalents	847,099
	<u>\$ 5,187,324</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 240,319
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	420,484
Changes in assets and liabilities:	
Accounts receivable	(44,608)
Inventory	(133)
Prepaid items	221,340
Accounts payable	(883,590)
Accrued payroll and payroll taxes	(204,084)
Deferred revenue	(37,082)
Compensated absences	1,807
Net cash provided by operating activities	<u>\$ (285,547)</u>

**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, 2015

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**Assets**

Current assets

Cash and cash equivalents

\$ 43,150

**Liabilities**

Due to consumers

\$ 43,150

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

## Northeast Michigan Community Mental Health Authority

### Notes to Financial Statements

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#### **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, 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 this 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 & 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, 2015.

**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, 2015.

**Northeast Michigan Community Mental Health Authority**

Notes to Financial Statements

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**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 development 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 \$26,124 at September 30, 2015.

**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.

**Northeast Michigan Community Mental Health Authority**

Notes to Financial Statements

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

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

**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 & 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.

**Northeast Michigan Community Mental Health Authority**

Notes to Financial Statements

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Initial cash settlements under managed care contracts require substantial use of judgment and are subject to review by the Michigan Department of Health & 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	\$ 4,340,225	\$ 43,150	\$ 4,383,375
Restricted cash and cash Equivalents	847,099	-	847,099
Investments	500,000	-	500,000
	<u>\$ 5,687,324</u>	<u>\$ 43,150</u>	<u>\$ 5,730,474</u>

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

Petty cash	\$ 3,250
Checking and savings accounts	5,227,224
Certificates of deposit (due within one year)	<u>500,000</u>
	<u>\$ 5,730,474</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, \$4,960,013 of the Authority's bank balance of \$5,753,163 was exposed to custodial credit risk because it exceeded FDIC Insurance limits. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC 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.



Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

**NOTE 2 - DEPOSITS AND INVESTMENTS - (Continued)**

*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.

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, 2015:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Compensated absences	\$ 845,292	\$ 1,807	\$ -	\$ 847,099	\$ 70,563

**Northeast Michigan Community Mental Health Authority**

Notes to Financial Statements

**NOTE 4 - LEASES**

The Authority is party to numerous operating leases, for which aggregate rental expense was \$300,862. 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, 2015:

<u>September 30,</u>	
2016	\$ 136,217
2017	118,699
2018	109,246
2019	101,013
2020	102,340
Thereafter	<u>272,065</u>
	<u>\$ 839,580</u>

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated</b>				
Land	\$ 90,000	\$ -	\$ -	\$ 90,000
Construction in progress	-	3,888	-	<u>3,888</u>
Total capital assets not being depreciated	<u>90,000</u>	<u>3,888</u>	<u>-</u>	<u>93,888</u>
<b>Capital assets being depreciated</b>				
Buildings	1,910,237	-	-	1,910,237
Building improvements	364,101	-	-	364,101
Leasehold improvements	334,534	14,325	-	348,859
Vehicles	1,359,670	101,972	(111,499)	1,350,143
Computer equipment	367,280	6,072	(8,818)	364,534
Client equipment	93,542	5,443	-	98,985
Other equipment	<u>315,388</u>	<u>-</u>	<u>-</u>	<u>315,388</u>
Total capital assets being depreciated	<u>4,744,752</u>	<u>127,812</u>	<u>(120,317)</u>	<u>4,752,247</u>

## Northeast Michigan Community Mental Health Authority

### Notes to Financial Statements

#### NOTE 5 - CAPITAL ASSETS – (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Accumulated depreciation</b>				
Buildings	(760,722)	(62,875)	-	(823,597)
Building improvements	(192,348)	(22,030)	-	(214,378)
Leasehold improvements	(88,523)	(30,216)	-	(118,739)
Vehicles	(771,170)	(247,319)	111,499	(906,990)
Computer equipment	(311,645)	(27,711)	8,818	(330,538)
Client equipment	(66,470)	(10,906)	-	(77,376)
Other equipment	(230,731)	(19,427)	-	(250,158)
Total accumulated depreciation	<u>(2,421,609)</u>	<u>(420,484)</u>	<u>120,317</u>	<u>(2,721,776)</u>
Capital assets being depreciated, net	<u>2,323,143</u>	<u>(292,672)</u>	<u>-</u>	<u>2,030,471</u>
<b>Capital assets, net</b>	<b><u>\$ 2,413,143</u></b>	<b><u>\$ (288,784)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,124,359</u></b>

Depreciation expense of \$420,484 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 \$9,934,634. Total employer contributions for the year ended September 30, 2015 were \$672,678.

##### *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 \$5,471,373. Total employer contributions for the year ended September 30, 2015, were \$311,868.

**Northeast Michigan Community Mental Health Authority**

Notes to Financial Statements

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**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, 2015.

**NOTE 8 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employees 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 \$8,858,050 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 \$55,000 per member.

The Authority has claims incurred but not paid at September 30, 2015. GASB 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, 2015 is as follows:

Estimate of prepaid claims, beginning of year	\$ 170,519
Incurred claims and changes in estimates	(2,386,441)
Claim payments	<u>2,141,739</u>
Estimate of claims payable, end of year	<u>\$ ( 74,183)</u>



**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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 1, 2016.

***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 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 instances of immaterial noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described below:

#### **Finding Number 2015-001 - Medicaid Plan of Service**

**Criteria:** The Medicaid subcontract between the Authority and the Northern Michigan Regional Entity requires that an *Individual Plan of Service* be in place prior to services being performed and the related billings to Medicaid for those services.

**Condition:** In 3 of 40 files examined, there was a lapse in coverage between annual Individual Plans of Service in place. During this lapse, services had been provided and billed to Medicaid.

**Cause:** A current Individual Plan of Service had not been completed prior to the expiration of the previous Individual Plan of Service for individuals served to avoid a temporary lapse in coverage.

**Effect:** Services were provided and billed to Medicaid with no Individual Plan of Service in effect for individuals served.

**Management's Response and Corrective Action Plan:** The error rate for the Individual Plan of Service discrepancies found under audit conditions represent only 0.1% of the services audited (22 out of 209,457) and only 1.3% of the service dollars audited (\$6,448 out of \$506,514). Although these error rates are within the 95% compliance rate required by contract, management has communicated to all supervisory staff in charge of programs that develop and manage Individual Plans of Service, that all services must be pre-authorized in the Individual Plan of Service regardless of beneficiary insurance or if the services are internally or externally provided (i.e. COFR's and contractual services such as Wraparound, etc.). In addition, management met with supervisory staff to improve and re-communicate our internal process of case review that includes notification of staff on a monthly basis when plans of service are due. We will update our case record review protocol to include an increased emphasis on Individual Plan of Service dates and communicate these updates to all staff. We have charged the Utilization Management Committee of this Organization to develop and implement an improved plan to address a random sampling of charts at their monthly meetings. Services that were incorrectly charged to Medicaid have been corrected and charges to Medicaid have been reversed.

**Finding Number 2015-002 - Medicaid Health Assessment**

**Criteria:** The Medicaid subcontract requires Health Assessments to be documented in the file for the individual served.

**Condition:** In 1 of 40 files examined, the Health Assessment documentation could not be located in the file for the individual served.

**Cause:** The failure to document the Health Assessment was an oversight by the personnel responsible for services provided to individuals.

**Effect:** Services were provided with without a proper Health Assessment on file.

**Management's Response and Corrective Action Plan:** In this case, the individual received care on a sporadic basis. Management will implement an internal control procedure that includes a nurse practitioner assisting the doctor in ensuring that a proper health assessment is documented prior to health services being provided to individuals. Services that were incorrectly charged to Medicaid have been corrected and charges to Medicaid have been reversed.

***Northeast Michigan Community Mental Health's Response to Findings***

The Authority's responses to the findings identified in our audit are described above. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***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.



February 1, 2016

# Straley Lamp & Kraenzlein P.C.



Certified Public Accountants

Philip T. Straley, CPA/PFS  
Bernard R. Lamp, CPA  
James E. Kraenzlein, CPA/ABV/CFF  
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Robert D. Ilsley, CPA  
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John D. Faulman, CPA  
Andrew R. Lamp, CPA  
Donald C. Levren

Gordon A. Nethercut, CPA-Retired

## AUDIT COMMUNICATIONS

To the Board of Directors  
Northeast 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 Community Mental Health Authority (the "Authority") for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 3, 2015. Professional standards also require that we communicate to you the following information related to our audit.

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

#### ***Internal Control***

As stated in our engagement letter dated November 2, 2015 our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting. Such considerations were solely for the purpose of determining our audit procedures and for expressing our opinions on the financial statements, but not to provide any assurance 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.

#### ***Compliance***

We are also engaged to perform a compliance examination in accordance with *CMH Compliance Examination Guidelines*, issued by the Michigan Department of Health & Human Services. The compliance examination is performed to test the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements. However, providing an opinion on compliance with those provisions will not be an objective of our audit, and accordingly, we will not express such an opinion.

We will issue a separate report on the results of our compliance examination. The report is currently pending final forms and guidance from the Michigan Department of Health & Human Services.



### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter about planning matters on November 2, 2015.

### **Significant Audit Findings**

#### *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. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit 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 fixed assets in determining depreciation expense, incurred but not reported employee health care claims and the settlements under state contracts.

We evaluated the key factors and assumptions used to develop the above accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

### **Difficulties Encountered in Performing the Audit**

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We are pleased to report that we are aware of no material misstatements that should have been included in the financial statements for the year ended September 30, 2015.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated February 1, 2016.

### **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 governmental unit’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 governmental unit’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**

1. Recent Pronouncements. The Governmental Accounting Standards Board continues to issue pronouncements that affect local government accounting and financial reporting. In 2015, GASB issued Statements No. 72 through No. 79. Many of these are related to pension and post-employment benefits and do not have an impact on the Authority. The following GASB Statements are relevant to the Authority; however, their impact will be minimal on the accounting and financial reporting processes of the Authority.

**A. Summary of Statement No. 72, *Fair Value Measurement and Application*.** This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

**B. GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.** On June 29, 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 76, which supersedes GASB Statement No. 55. The hierarchy of generally accepted accounting principles (GAAP) prioritizes the guidance state and local governments follow when preparing financial statements in accordance with GAAP. The new standard is intended to improve the usefulness of financial statements for decision making and enhance the comparability of financial statement information among governments. The standard is effective for periods beginning after June 15, 2015, and should be retroactively applied. Earlier application is permitted.

This report 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 commend the Authority for its excellent record keeping system and appreciate the opportunity to serve Northeast 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,

A handwritten signature in cursive script that reads "Stanley Lamp: Kresynski".

February 1, 2016