

**NORTHEAST MICHIGAN COMMUNITY
MENTAL HEALTH AUTHORITY**

Financial Statements

September 30, 2020

STRALEY LAMP & KRAENZLEIN P.C.

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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, 2020 compared to the prior year.

	Total business-type activities	
	2019-20	2018-19
Current and other assets	\$ 10,939,872	\$ 7,193,128
Non-current capital assets	1,733,068	1,504,514
Total assets	12,672,940	8,697,642
Current liabilities	6,386,186	2,443,736
Long-term debt outstanding	794,575	717,776
Total liabilities	7,180,761	3,161,512
Net Position		
Net investment in capital assets	1,733,068	1,504,514
Restricted	13,680	-
Unrestricted	3,745,431	4,031,616
Total net position	\$ 5,492,179	\$ 5,536,130

Unrestricted net position consists of \$866,778, an internally reserved amount to pay staff their earned leave pay, and \$2,878,653, an unreserved amount used to finance day-to-day operations. The \$2,878,653 used to finance day-to-day operations represents about 9.6% of current year expenditures, which is a decrease of 1.7% when compared with 2018-19.

The net position invested in capital assets increased \$228,554 from 2018-19. The net investment in capital assets represents 31.6% of net positions as of September 30, 2020.

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 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 2019-20 or 2018-19.

The Authority has designated a portion of its cash balance to fund 100% of its long-term debt obligations to pay for staff earned leave time. The Authority has no other long-term debt outstanding. The Authority's total designated debt cash balance fund increased \$83,778 or 10.7% 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, 2020 compared to the prior year.

	Total business-type activities	
	2019-20	2018-19
Total program revenues	<u>\$ 30,081,048</u>	<u>\$ 28,742,324</u>
Health and human service expenses:		
Mental health services expense	8,249,862	7,570,787
Developmental disability services expense	18,309,128	17,946,246
Other support services expense	1,560,418	1,705,321
Board administration expense	<u>2,018,490</u>	<u>1,621,482</u>
Total health and human service expenses	<u>30,137,898</u>	<u>28,843,836</u>
Change in net position	<u>\$ (56,850)</u>	<u>\$ (101,512)</u>

Total revenues increased by 4.7% while total expenses increased by 4.5% in 2019-20 as compared to 2018-19.

Enterprise Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget twice to accommodate a projected increase in funding of \$569,017 for the fiscal year. The largest budget increases were \$410,497 in Medicaid funds and \$106,170 in COVID-19 grant funds. The largest budget decrease was \$191,567 in travel and gas expenses. A General Fund transfer of \$40,000 was received in 2019-20. The Michigan legislature mandated a \$2.00 per hour wage increase to all direct care workers effective 4/1/2020. This increase has been passed through to all direct care workers.

During 2019-20, Medicaid benefit expenditures of \$26,884,104 were \$1,806,198 less than paid by the Northern Michigan Regional Entity (NMRE). The NMRE holds the Medicaid and Healthy Michigan contracts with the Michigan Department of Health and Human Services (MDHHS) and maintains a risk fund to cover the cost of services that exceed funds paid. The Authority will be reimburse the NMRE for this overage to be added to their allowable risk fund.

Northeast Michigan Community Mental Health Authority

Management's Discussion and Analysis

During 2019-20, actual Healthy Michigan Plan (HMP) benefit expenditures of \$1,568,062 were \$298,128 less than paid by the NMRE. The Authority will be reimburse the NMRE for this underspending. It will net with the Medicaid amount listed above.

During 2019-20, actual General Fund benefit expenditures of \$806,477 (\$901,047 beginning of year contract amount plus \$40,000 transfer amount) were \$134,570 less than allocated by the MDHHS. The Authority received one Section 236 transfer of \$40,000 from North Country CMH to the General Fund before being aware of our excess in General Funds. The Authority was able to carry forward \$45,052 of General Funds into 2020-21. The Authority will owe MDHHS \$89,518 for the underspent General Funds.

The total change in net position of \$(56,851) represents a shortage of local funds primarily earned by the Authority's participation in the MDHHS Special Fund program which allows a CMH to utilize payments received from individuals and participating insurance companies (i.e. Medicare, Blue Cross Blue Shield, etc.) as local matching funds and from incentive payments received from insurance companies and the NMRE.

The Authority's net revenues were less than planned levels by \$1,178,363 during 2019-20. The net revenues are net of the amount owed to NMRE and MDHHS of \$2,104,326 and \$89,518, respectively, and the actual amount received was higher than budgeted.

The Authority's net expenditures were less than planned levels by \$1,121,512 during 2019-20. In 2019-20 the Authority underspent its self-insured benefits by \$206,877 and underspent its contracted residential services budget by \$859,932.

The Authority had many new items in 2019-20 due to funding, direct expenditures and regulations due to the COVID-19 pandemic. During 2019-20, the workforce was shifted to remote work, services provided by tele-health were greatly expanded, and the State \$2.00 direct care wage pass through to all internal and contract direct care workers caused some slight changes in financial reporting. Revenues were passed through the board from the State to comply with the direct care wage. Two grants were received by the State to help provide for PPE and resources necessary to comply with the work at home mandate by the State. These were all accounted for through the financial statements and adjustments were made to the 2019-20 budget. The 2019-20 required reporting to the State, was altered to accommodate for reporting these changes as well. Some of these items will carry forward to 2020-21 and will be accounted for in a similar manner.

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, 2020, the Authority had \$4,989,629 invested in capital assets, including land, buildings and building improvements, equipment, vehicles, and leasehold improvements. This is an increase of \$278,288 or 5.9% as compared to 2019-20.

Northeast Michigan Community Mental Health Authority

Management's Discussion and Analysis

Capital assets purchased during fiscal year 2019-20 include new servers and switches for our computer network and the replacement of 11 agency vehicles. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles. Due to excessive funds in 2019-20 that plan was stepped up in anticipation of possible reduced funding in 2020-21.

Economic Factors and Next Year's Budgets

The Authority's preliminary budget for 2020-21 is \$31,961,705. This is \$1,823,641 more than actual expenditures for 2019-20 and \$705,129 more than budgeted for 2019-20. This increase is primarily due to projected increases in the Authority's Medicaid and Healthy Michigan plan revenue and General Fund projected increases and a carryforward from 2019-20. The budget will be amended as needed to reflect changes in enrollment, federal and state insurance plans, and funding availability that normally impact the Medicaid and Healthy Michigan benefit plans.

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

The Authority is planning no new long-term debt borrowing in 2020-21.

Contacting the Authority's Management

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

Independent Auditor's Report

To the Board of Directors
Northeast Michigan Community
Mental Health Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the major fund, and aggregate remaining fund information of **Northeast Michigan Community Mental Health Authority** (the "Authority") as of and for the year ended September 30, 2020, 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***, as of September 30, 2020, 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 11, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Straley Kamp & Kraenzlein P.C.

February 11, 2021

Northeast Michigan Community Mental Health Authority

Statement of Net Position

Proprietary Fund

September 30, 2020

Assets	<u>Enterprise Fund</u>
Current assets	
Cash and cash equivalents	\$ 8,658,516
Designated cash and cash equivalents	72,203
Accounts receivable	943,038
Beneficial interest	4,637
Inventory	37,068
Prepaid items	420,792
Total current assets	<u>10,136,254</u>
Non-current assets	
Designated cash and cash equivalents	794,575
Beneficial interest	9,043
Capital assets not being depreciated	80,000
Capital assets being depreciated, net	1,653,068
Total non-current assets	<u>2,536,686</u>
Total assets	<u>12,672,940</u>
Liabilities	
Current liabilities	
Accounts payable	4,814,405
Accrued payroll and payroll taxes	1,436,289
Unearned revenue	63,289
Current portion of long-term debt	72,203
Total current liabilities	<u>6,386,186</u>
Non-current liabilities	
Long-term debt, net of current portion	<u>794,575</u>
Total liabilities	<u>7,180,761</u>
Net position	
Net investment in capital assets	1,733,068
Restricted	13,680
Unrestricted	3,745,431
Total net position	<u>\$ 5,492,179</u>

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

Northeast Michigan Community Mental Health Authority
Statement of Revenue, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended September 30, 2020

	Enterprise Fund
Operating revenue	
State contracts	\$ 28,741,352
Contributions from local units	502,533
Charges for services	725,272
Other revenue and reimbursements	102,662
	30,071,819
Operating expenses - Health and Human Services	
Mental health services	
Outpatient clinic and case management	4,940,197
Inpatient	1,458,860
Prevention	806,048
Community support	804,322
Behavior health home	1,696
Employment	124,428
Other	114,311
Developmental disability services	
Residential	9,462,948
Community support	1,285,667
Supported living and housing	4,142,062
Employment	922,438
Clinical support and case management	2,354,618
Other	141,395
Other support services	1,560,418
Administration	2,018,490
	30,137,898
Total operating expenses	30,137,898
Operating income	(66,079)
Non-operating revenue (expenses)	
Interest revenue	8,448
Gain (loss) on beneficial interest	781
	9,229
Total non-operating revenue (expenses)	9,229
Change in net position	(56,850)
Net position, beginning of year, as previously stated	5,536,130
Prior period adjustment	12,899
Net position, beginning of year, as restated	5,549,029
Net position, end of year	\$ 5,492,179

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, 2020

	Enterprise Fund
Cash flows from operating activities	
Cash received from providing services	\$ 32,220,819
Cash payments to suppliers and affiliates	(10,432,291)
Cash payments for personnel services	(16,328,575)
Net cash provided by operating activities	5,459,953
Cash flows from capital and related financing activities	
Purchase of capital assets	(491,625)
Net cash used by capital and related financing activities	(491,625)
Cash flows from investing activities	
Interest received	8,456
Net cash provided by investing activities	8,456
Increase in cash and cash equivalents	4,976,784
Cash and cash equivalents, beginning of the year	4,548,510
Cash and cash equivalents, end of the year	\$ 9,525,294
Cash and cash equivalents per the statement of net position	
Cash and cash equivalents	\$ 8,658,516
Designated cash and cash equivalents	866,778
	\$ 9,525,294
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ (66,079)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	263,069
Changes in assets and liabilities:	
Accounts receivable	(143,901)
Inventory	(24,592)
Prepaid items	31,448
Accounts payable	4,423,288
Accrued payroll and payroll taxes	847,920
Deferred revenue	45,022
Long-term debt	83,778
Net cash provided by operating activities	\$ 5,459,953

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

Northeast Michigan Community Mental Health Authority
Statement of Fiduciary Assets and Liabilities
Agency Fund
September 30, 2020

Assets

Current assets

Cash and cash equivalents	\$ 62,706
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Liabilities

Due to consumers	\$ 62,706
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Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

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

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

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Risk Reserve Internal Service Fund (a proprietary fund type) is used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Health and Human Services (“MDHHS”). Pursuant to these contractual provisions, the Risk Reserve Internal Service Fund has not been presented in these financial statements as there is no current year activity or net position at September 30, 2020.

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, 2020.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (continued)

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from MDHHS and first- and third-party payers. Operating expenses include the cost of providing mental health and intellectual/developmental disability services together with related support services and administration. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Investments - The Authority's cash consists of cash on hand, demand deposits and certificate of deposits. Designated cash and cash equivalents represent amounts held in reserve accounts as authorized by resolution of the Authority's Board. The Authority had no investments during the year ended September 30, 2020.

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 \$4,600 at September 30, 2020.

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

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

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

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

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors grantors, laws or regulations of other governments. Unrestricted net position is the remaining net position that does not fall into any of the criteria for the previously defined categories. When both restricted and unrestricted resources are available for use, the Authority would use restricted resources first, then unrestricted resources.

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.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (continued)

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	\$ 8,658,516	\$ 62,706	\$ 8,721,222
Designated cash and cash equivalents	866,778	-	866,778
	<u>\$ 9,525,294</u>	<u>\$ 62,706</u>	<u>\$ 9,588,000</u>

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

Petty cash	\$ 3,025
Checking and savings accounts	8,834,975
Certificates of deposit (due within one year)	<u>750,000</u>
	<u>\$ 9,588,000</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, \$8,735,747 of the Authority's bank balance of \$9,735,747 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.

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, 2020:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Compensated absences	<u>\$ 783,000</u>	<u>83,778</u>	<u>-</u>	<u>\$ 866,778</u>	<u>\$ 72,203</u>

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 \$258,024. These leases are for residential property and office facilities used to shelter and serve individuals in need.

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, 2020:

2021	\$ 156,141
2022	109,457
2023	89,472
2024	61,689
2025	20,534
	<u>\$ 437,293</u>

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 80,000	\$ -	\$ -	\$ 80,000
Total capital assets not being depreciated	80,000	-	-	80,000
Capital assets being depreciated				
Buildings	1,675,531	-	-	1,675,531
Building improvements	434,244	10,830	-	445,074
Leasehold improvements	321,796	-	-	321,796
Vehicles	1,408,463	284,046	(213,334)	1,479,175
Computer equipment	398,718	196,746	-	595,464
Client equipment	95,505	-	-	95,505
Other equipment	297,084	-	-	297,084
Total capital assets being depreciated	4,631,341	491,622	(213,334)	4,909,629

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 5 - Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Accumulated depreciation				
Buildings	\$ (889,416)	\$ (49,944)	\$ -	\$ (939,360)
Building improvements	(273,101)	(17,978)	-	(291,079)
Leasehold improvements	(222,846)	(28,054)	-	(250,900)
Vehicles	(1,083,216)	(142,701)	213,334	(1,012,583)
Computer equipment	(362,447)	(17,301)	-	(379,748)
Client equipment	(90,273)	(1,930)	-	(92,203)
Other equipment	(285,528)	(5,160)	-	(290,688)
	<u>(3,206,827)</u>	<u>(263,068)</u>	<u>213,334</u>	<u>(3,256,561)</u>
Total accumulated depreciation				
Capital assets being depreciated, net	<u>1,424,514</u>	<u>228,554</u>	<u>-</u>	<u>1,653,068</u>
Capital assets, net	<u>\$ 1,504,514</u>	<u>\$ 228,554</u>	<u>\$ -</u>	<u>\$1,733,068</u>

Depreciation expense of \$263,069 was charged entirely to a single Health and Human Services function.

Note 6 - Pension Plans

Defined Contribution Plan

The Authority has adopted a defined contribution retirement plan administered by Voya Institutional Trust Co. The Authority's plan covers all full-time employees. Employees may start contributing on the first month following their regular full-time employment. For participants with a full-time seniority date of at least December 1, 2003 they will be vested 100% immediately. All other participants will be vested 100% after three years of service. Forfeitures of non-vested participants are available to reduce future employer contribution and expenses. Employer contributions of up to 7.5% of gross wages are paid to the plan trustees on a biweekly basis at the same time that wages are paid. The covered payroll for the plan was \$10,461,606. Total employer contributions for the year ended September 30, 2020 were \$737,477, of which \$27,666 was accrued.

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 6 - Pension Plans (continued)

Alternative Social Security Plan

The Authority contributes 5.7% of all non-union employees' salary to the plan. Employees are also required to contribute 6.2% 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 \$5,915,386. Total employer contributions for the year ended September 30, 2020 were \$337,177.

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, 2020.

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 \$8,665,382 for buildings and personal property.

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

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

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 8 - Risk Management (continued)

The Authority has claims incurred but not paid at September 30, 2020. GASB Statement No. 10 requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The changes in claims in the year ended September 30, 2020 is as follows:

Estimate of prepaid claims, beginning of year	\$ 23,536
Incurred claims and changes in estimates	(2,275,594)
Claim payments	<u>2,275,594</u>
Estimate of claims payable, end of year	<u>\$ 23,536</u>

Note 9 - Community Foundation of Northeast Michigan Fund

The Community Foundation for Northeast Michigan (the "CFNEM") carries certain funds which are for the benefit of the Authority. These funds are not included in the Authority's financial statements as they are considered assets of the CFNEM, but limited amounts would be available upon a successful grant application to the Foundation's Trustees. As of September 30, 2020, the Northeast Michigan Community Mental Health Fund had a balance of \$90,121, of which \$8,711 would be available upon a successful grant application.

Note 10 - Prior Period Adjustment

Information was obtained from the CFNEM that these funds are being held in an agency capacity. Consequently, it was determined the Authority should recognize an asset for the Authority's beneficial interest in the Northeast Michigan Community Mental Health Agency Fund. A prior period adjustment has been recorded to recognize this beneficial interest. As a result, the Authority's net position has been restated by an increase of \$12,899 as of September 30, 2019.

Note 11 - Subsequent Events

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

Northeast Michigan Community Mental Health Authority

Notes to Financial Statements

Note 11 - Subsequent Events (continued)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the Authority's operational and financial performance will depend on various developments, including the duration of the spread of the outbreak and its impact on employees, consumers, and vendors, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the Authority for providing emergency services to its consumers. While management reasonably expects the COVID-19 outbreak to negatively impact the Authority's financial position, change in financial position, and where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Northeast Michigan Community
Mental Health Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities, the major fund, and aggregate remaining fund information of **Northeast Michigan Community Mental Health Authority** (the "Authority"), as of and for the year ended September 30, 2020, 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 11, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Kamp & Kraenzlein P.C.

February 11, 2021