NORTHEAST MICHIGAN COMMUNITY MENTAL HEALTH AUTHORITY

Financial Statements

September 30, 2016

STRALEY LAMP & KRAENZLEIN P.C.

CONTENTS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

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

The Authority as a Whole

The table below shows a comparison of the net position of the Authority as of September 30, 2016 compared to the prior year.

	Total business-type activities	
	2015-16	2014-15
Current assets	$ 6,123,497	$ 6,688,691
Non-current assets	1,977,245	2,124,359
Total assets	8,100,742	8,713,050
Long-term debt outstanding	768,309	776,536
Other liabilities	1,834,775	2,542,767
Total liabilities	2,603,084	3,319,303
Net Position		
Net investment in capital assets	1,977,245	2,124,359
Unrestricted	3,520,413	3,269,388
Total net position	$ 5,497,658	$ 5,393,747

Unrestricted Net Assets consists of $838,125, an internally reserved amount to pay staff their earned leave pay, and $2,682,288, an unreserved amount used to finance day-to-day operations. The $2,682,288 used to finance day-to-day operations represents about 10.0% of current year expenditures, an increase of 0.9% as compared to 2014-15. The Authority's total net position improved by 1.9% as compared to 2014-15.

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 service fund in either 2015-16 or 2014-15.

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 Long-Term Debt fund decreased ($8,974) or (1.1%) as compared to a year ago.

The table below shows a comparison of the change in net position of the Authority as of September 30, 2016 compared to the prior year.

	Total business-type activities	
	2015-16	2014-15
Total program revenues	$ 26,906,523	$ 26,983,355
Health and human service expenses:		
Mental health services expense	7,796,814	7,749,080
Developmental disability services expense	15,803,224	15,939,936
Other support services expense	1,936,155	1,738,858
Board administration expense	1,266,419	1,306,155
Total health and human service expenses	26,802,612	26,734,029
Change in net position	$ 103,911	$ 249,326

Total revenues decreased by 0.3% while total expenses increased by 0.3% in 2015-16 as compared to 2014-15.

Enterprise Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget once in May 2016 to accommodate a net decrease in funding of ($585,682). The largest budget decreases were reductions of ($406,267) in State Healthy Michigan Funds, ($302,134) in State Applied Behavioral Analysis (Autism) Funds, and ($24,569) in reimbursable charges from other insurance programs. The largest budget increase of $189,409 was in State/Federal Medicaid Funds.

During 2015-16, the Medicaid program was combined with the MIChild benefit program by Michigan Department of Health and Human Services (MDHHS). Medicaid benefit expenditures of $22,878,719 were $281,975 less than allocated by the Northern Michigan Regional Entity (NMRE). The NMRE holds the Medicaid, Healthy Michigan, and Autism contracts with the MDHHS. As allowed by contract, Medicaid funds are allowed to be used to cover shortfalls in Autism funding.

During 2015-16, actual Healthy Michigan Plan (HMP) expenditures of $1,145,719 were ($19,720) more than allocated by the NMRE. The Authority will be reimbursed for this deficit by the NMRE from its risk fund as allowed by their contract with the MDHHS.

During 2015-16, actual Autism expenditures were $771,523. Actual funding received was $312,301. The funding shortfall of ($459,222) will be 100% covered by the Authority's contract with the NMRE. The NMRE will utilize funds from its Medicaid Risk Fund and its contract with MDHHS when fee for service claims are cost settled. Eligibility for the Autism program was expanded by MDHHS on January 1, 2016 to cover individuals up to the age of 21. As funding for the expansion was considered to be inadequate to cover the expansion, providers were required to utilize Medicaid funds to cover expenditures that exceed the fee for service reimbursed rates for required Autism services.

2015-16 was the first year that the Authority's managed care budget (Medicaid, Healthy Michigan, and Autism benefit programs) were based upon actual per member per month capitated funding received from the NMRE on behalf of participants having these insurances in the Authority's catchment area (Alcona, Alpena, Montmorency, and Presque Isle Counties). The net shortfall of these 3 programs is ($196,967). Of this amount, approximately $174,000 of additional funding is projected to be received for the Autism program leaving $22,967 to be reimbursed from the NMRE's Healthy Michigan and Medicaid risk funds.

During 2015-16, actual General Fund benefit expenditures of $646,243 were $42,969 less than allocated by the MDHHS. Of the unspent amount, the Authority transferred $11,500 to an affiliate, Centra Wellness, a Community Mental Health Service Provider (CMHSP), to cover all or a portion of their General Fund shortfall and the Authority will carry forward $31,469 of General Funds to use in 2016-17. The Authority also used $22,026 of State General Funds carried forward from 2014-15 for local client services in 2015-16.

The total change in net position of $103,911 represents unused local funds primarily earned by the authority's participation in the MDHHS Special Fund program which allows a CMH to utilize payments received from individuals and participating insurance companies (i.e. Medicare, Blue Cross Blue Shield, etc.) as local matching funds.

The Authority's net revenues were below planned levels by $97,213 during 2015-16. The majority of this lower revenue was due to lower claim costs to participating insurance companies (i.e. Medicare, Blue Cross Blue Shield, etc.).

The Authority's net expenditures were below planned levels by $201,123 during 2015-16. The largest item under spent was staff wages and benefits of $287,711. Because of the uncertain funding of the Autism program, the Authority held several positions open over the course of the year to address anticipated under funding of this required program.

Capital Asset and Debt Administration

As of September 30, 2016, the Authority had $4,922,411 invested in capital assets, including land, buildings, equipment, vehicles, and leasehold improvements. This is an increase of $76,276 or 1.6% as compared to 2014-15. The authority has no outstanding debt related to its capital assets.

Capital assets purchased during fiscal year 2015-16 included the replacement of roofing shingles for the Alpena main office building, replacement and upgrading of 2 network computer servers, the addition of augmented systems for the hearing impaired in our Fletcher Street and Alpena main office buildings, and the addition of an access security system at our Clubhouse facility. 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 2015-16.

Economic Factors and Next Year's Budgets

The Authority's preliminary budget for 2016-17 is $26,661,357. This is ($141,255) less than actual expenditures for 2015-16 and ($342,379) less than budgeted for 2015-16. This decrease is primarily due to projected revenue reductions in the Authority's Medicaid and Healthy Michigan managed care funding. This budget will be amended as needed to reflect changes in enrollment and funding that occur primarily in the Medicaid, Healthy Michigan Plan, and Autism benefit programs. In addition, changes in the federal Medicaid program are anticipated but remain uncertain at the time of this publication.

The Authority plans to continue its strong emphasis on self-determined individualized arrangements for community supports, employment, and independent living services for persons with serious mental illnesses or intellectual/developmental disabilities. The Authority is also anticipating an increase in prevention and treatment services for Veterans and persons suffering from significant addiction issues.

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 2016-17.

Contacting the Authority's Management

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

Straley Lamp &
Kraenzlein P.C.

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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, 2016, 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.

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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 23, 2017 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Straley Lamp & Kraenzlein P.C.

February 23, 2017

Northeast Michigan Community Mental Health Authority

Statement of Net Position
Proprietary Fund
September 30, 2016

		Enterprise Fund
Assets		
Current assets		
Cash and cash equivalents	$	3,151,964
Designated cash and cash equivalents		838,125
Investments		750,000
Accounts receivable		1,003,935
Inventory		15,638
Prepaid items		363,835
Total current assets		6,123,497
Non-current assets		
Capital assets not being depreciated		90,000
Capital assets being depreciated, net		1,887,245
Total non-current assets		1,977,245
Total assets		8,100,742
Liabilities		
Current liabilities		
Accounts payable		1,196,200
Accrued payroll and payroll taxes		531,710
Deferred revenue		37,049
Current portion of long-term debt		69,816
Total current liabilities		1,834,775
Non-current liabilities		
Long-term debt, net of current portion		768,309
Total liabilities		2,603,084
Net position		
Net investment in capital assets		1,977,245
Unrestricted		3,520,413
Total net position	$	5,497,658

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, 2016

	Enterprise Fund
Operating revenue	
State contracts	$ 25,721,776
Contributions from local units	269,740
Charges for services	816,076
Other revenue and reimbursements	89,307
Total operating revenue	26,896,899
Operating expenses - Health and Human Services	
Mental health services	
Outpatient clinic and case management	3,484,094
Residential	1,096,917
Inpatient	992,751
Prevention	729,834
Community support	594,886
Supported living and housing	492,876
Employment	197,960
Other	207,496
Developmental disability services	
Residential	6,632,875
Community support	1,664,995
Supported living and housing	3,812,866
Employment	1,334,586
Clinical support and case management	2,234,683
Other	123,219
Other support services	1,936,155
Board administration	1,266,419
Total operating expenses	26,802,612
Operating income	94,287
Non-operating revenue (expenses)	
Interest revenue	9,624
Change in net position	103,911
Net position, beginning of year	5,393,747
Net position, end of year	$ 5,497,658

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, 2016

	Enterprise Fund
Cash flows from operating activities	
Cash received from providing services	$ 26,125,957
Cash payments to suppliers and affiliates	(9,483,288)
Cash payments for personnel services	(17,369,503)
Net cash provided by operating activities	(726,834)
Cash flows from capital and related financing activities	
Purchase of capital assets	(230,025)
Net cash used by capital and related financing activities	(230,025)
Cash flows from investing activities	
Proceeds from redemptions of investments	500,000
Purchase of investments	(750,000)
Interest received	9,624
Net cash provided by investing activities	(240,376)
Decrease in cash and cash equivalents	(1,197,235)
Cash and cash equivalents, beginning of the year	5,187,324
Cash and cash equivalents, end of the year	$ 3,990,089
Cash and cash equivalents per the statement of net position:	
Cash and cash equivalents	$ 3,151,964
Designated cash and cash equivalents	838,125
	$ 3,990,089
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 94,287
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	377,139
Changes in assets and liabilities:	
Accounts receivable	(465,238)
Inventory	2,401
Prepaid items	(19,204)
Accounts payable	(256,594)
Accrued payroll and payroll taxes	(460,846)
Deferred revenue	10,195
Compensated absences	(8,974)
Net cash provided by operating activities	$ (726,834)

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, 2016

Assets	
Current assets	
Cash and cash equivalents	$ 42,395
Liabilities	
Due to consumers	$ 42,395

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The Risk Reserve Internal Service Fund (a proprietary fund type) is used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Health & 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, 2016.

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, 2016.

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

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

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

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

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

Receivables - Receivables consist primarily of amounts due from individuals and private or governmental insurance programs and grant reimbursements under the terms of contracts with other agencies, governments and organizations for services rendered. Receivables from first and third party payers are presented net of an allowance for uncollectible accounts as estimated by management. The allowance was $51,256 at September 30, 2016.

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.

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

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

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

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.

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	$ 3,151,964	$ 42,395	$ 3,194,359
Restricted cash and cash Equivalents	838,125	-	838,125
Investments	750,000	-	750,000
	$ 4,740,089	$ 42,395	$ 4,782,484

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

Petty cash	$ 3,100
Checking and savings accounts	4,029,384
Certificates of deposit (due within one year)	750,000
	$ 4,782,484

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, $4,010,562 of the Authority's bank balance of $5,010,562 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.

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, 2016:

	Beginning Balance	Increases	(Decreases)	Ending Balance	Due within one year
Compensated absences	$ 847,099	-	($8,974)	$ 838,125	$ 69,816

NOTE 4 - LEASES

The Authority is party to numerous operating leases, for which aggregate rental expense was $260,655. 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, 2016:

September 30,	
2017	$ 185,454
2018	176,755
2019	169,190
2020	171,097
2021	172,789
Thereafter	374,528
	$ 1,249,813

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 90,000	$ -	$ -	$ 90,000
Construction in progress	3,888	858	(4,746)	-
Total capital assets not being depreciated	93,888	858	(4,746)	90,000
Capital assets being depreciated				
Buildings	1,910,237	-	-	1,910,237
Building improvements	364,101	75,434	-	439,535
Leasehold improvements	348,859	-	-	348,859
Vehicles	1,350,143	113,230	(133,672)	1,329,701
Computer equipment	364,534	28,277	(6,289)	386,522
Client equipment	98,985	-	-	98,985
Other equipment	315,388	16,972	(13,788)	318,572
Total capital assets being depreciated	4,752,247	233,913	(153,749)	4,832,411

NOTE 5 - CAPITAL ASSETS - (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Accumulated depreciation				
Buildings	(823,597)	(63,048)	-	(886,645)
Building improvements	(214,378)	(21,411)	-	(235,789)
Leasehold improvements	(118,739)	(29,908)	-	(148,647)
Vehicles	(906,990)	(222,604)	133,672	(995,922)
Computer equipment	(330,538)	(12,848)	6,289	(337,097)
Client equipment	(77,376)	(9,069)	-	(86,445)
Other equipment	(250,158)	(18,251)	13,788	(254,621)
Total accumulated depreciation	(2,721,776)	(377,139)	153,749	(2,945,166)
Capital assets being depreciated, net	2,030,471	(143,226)	-	1,887,245
Capital assets, net	**$ 2,124,359**	**$ (142,368)**	**$ (4,746)**	**$ 1,977,245**

Depreciation expense of $377,139 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 $8,641,818. Total employer contributions for the year ended September 30, 2016 were $661,849.

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 $5,436,380. Total employer contributions for the year ended September 30, 2016, were $309,874.

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, 2016.

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 $8,910,700 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 $65,000 per member.

The Authority has claims incurred but not paid at September 30, 2016. GASB Statement No. 10 requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonable estimated.

The changes in claims in the year ended September 30, 2016 is as follows:

Estimate of prepaid claims, beginning of year	$ (74,183)
Incurred claims and changes in estimates	(2,803,362)
Claim payments	2,864,235
Estimate of claims payable, end of year	$ (13,310)

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS.*

To the Board of Directors
Northeast Michigan Community
Mental Health Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities, the major fund, and the aggregate remaining fund information of ***Northeast Michigan Community Mental Health Authority*** (the "Authority"), as of and for the year ended September 30, 2016, 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 23, 2017.

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.

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Straley Lamp & Kraenzlein P.C.

February 23, 2017