Community Mental Health Partnership of Southeast Michigan

Financial Statements
September 30, 2017

Roslund Prestage & Company
Certified Public Accountants

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Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Members of the Board
Community Mental Health Partnership of Southeast Michigan
Ann Arbor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Community Mental Health Partnership of Southeast Michigan (the Entity), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Entity's basic 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 entity'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 entity'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, each major fund, and the aggregate remaining fund information of the Entity, as of September 30, 2017, and the respective changes in financial position, and, where applicable, 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 required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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 April 3, 2018, on our consideration of the Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Entity's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

April 3, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Community Mental Health Partnership Of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FY 2017

Responsibility

The Community Mental Health Partnership of Southeast Michigan (CMHPSM) came into existence on January 1, 2014 as a result of the State of Michigan's consolidation of the 18 Prepaid Inpatient Health Plans (PIHP) operated by select Community Mental Health Service Programs (CMHSPs), into 10 distinct entities separate from the CMHSPs. As the PIHP, the CMHPSM is primarily responsible for the operation of the following:

1. Concurrent 1915(b)/(c) Waiver
2. Healthy Michigan Plan
3. Autism Benefit under iSPA
4. Substance Use Disorder Funding
5. Other Public Funding within its designated four-county Region of Lenawee, Livingston, Monroe and Washtenaw

As part of the operation of these programs, the CMHPSM must ensure that it is staffed so that it has sufficient administrative capability to carry out the requirements and obligations of the Specialty Service contract.

Mission

The CMHPSM Mission is to provide quality behavioral health care that promotes recovery and wellness, fosters resilience and supports self-determination and empowerment so that individuals served in our four-county region are successful in achieving their personal goals and dreams.

Financial Overview

Financial statements provided using the Enterprise Fund Presentation, which is a form of Proprietary Fund.

The Proprietary Fund financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business. Business type activities include services primarily funded through user charges.

Within the enterprise fund used to record the Revenues and Expenses associated with Operations, further structure was developed in order to identify the following:

1. Detail of the different funding sources provided to the CMHPSM
2. Detail of Finance, Information Management and other Administrative expenses required to operate the CMHPSM
3. Detail of the funding provided by the CMHPSM to the four County CMHSPs and Substance Abuse services by program.

The structure of the CMHPSM's Revenues and Expenses in this manner supports both the development of the Financial Statements for the Annual Financial Audit, as well as the State of Michigan contractual reporting.

The CMHPSM has one Proprietary Fund for recording of Revenues and Expenses associated with the PIHP Operations, and a second Fund for the recording of funding related to the PIHP's Internal Services Fund (ISF). The ISF is the primary element of the CMHPSM's Risk Management Strategy to protect service delivery at the four CMHSP's should unexpected expenses or revenue reductions occur without sufficient time to respond given the resources planned to be available during the Budget Development Cycle.

Fund Financial Statements

The proprietary funds financial statements are intended to provide an overview of CMHPSM's major areas of funding as the PIHP. Funds are separated to maintain the integrity of the reporting and to meet all funding and regulatory restrictions on the allowable expenses of each funding source.

Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the financial data provided in the financial statements. These notes are an integral part of the financial statements and should be viewed in conjunction with the information included in the statements.

Statement of Net Position

The CMHPSM's Net Position is comprised entirely of resources (Internal Service Fund) that are subject to external restrictions on how they may be used. The CMHPSM does not have any investments in capital assets and by the State of Michigan's design does not have any Local Reserves.

	2017
Assets	
Cash and Cash Equivalents – Unrestricted	$ 9,217,470
Cash and Cash Equivalents – Restricted	11,385,685
Receivables	10,716,916
Total Assets	$31,320,071
Liabilities	
Accounts Payable and Accrued Liabilities	$17,268,851
Unearned Revenue	6,899,423
Total Liabilities	$24,168,274
Net Position	
Restricted for Risk Management	7,135,209
Unrestricted	16,588
Total Net Position	$ 7,151,797

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues and expenses lists the major areas of funding received by the CMHPSM. Funding provided for Mental Health Managed Specialty Supports and Services Concurrent Waiver Programs by the Michigan Department of Community Health (MDCH) represents 94% of the total funding and Substance Use Disorder Services represents 5% received by the CMHPSM. Funding provided for the balance are Local Match Drawdown and Local Match for Health Homes that are collected by the CMHPSM from the CMHSPs and passed on to MDCH as required by the CMHPSM contract with MDCH.

During the fiscal year ended September 30, 2017, the net position of CMHPSM decreased by approximately $4,300,000 due to CMHSP expenses and the utilization of the Medicaid Risk Reserve.

Revenues	**2017**
Federal funding	$3,497,765
Medicaid Capitation	132,034,216
Healthy Michigan Plan	14,365,138
Autism	5,133,021
Health Home	-
PA2	2,099,644
Substance Abuse-State portion	803,436
Affiliation Charges	259,542
Contributions – Local Match Drawdown from CMHSPs	1,577,780
Performance Based Incentive Pool (PBIP)	1,065,413
Investment Income	56,518
Total Revenues	$160,892,473
Expenses	
Funding for Lenawee CMHSP	$16,392,355
Funding for Livingston CMHSP	26,206,636
Funding for Monroe CMHSP	30,052,045
Funding for Washtenaw CMHSP	72,889,744
SUD CA	10,932,182
Hospital Rate Adjuster	2,090,086
Use and HICA Tax	2,573,265
Local Match Drawdown	1,577,780
Local Match for Health Home	-
Administrative Expense	$2,432,416
Total Expenses	$165,146,509
Excess of Expenses Over Revenue	($4,254,036)

Factors Impacting The Future

The budget for any particular fiscal year is developed several months prior to MDHHS notification of estimated annual funding levels. The CMHPSM Board reviews and approves the annual budget in September for the subsequent fiscal year beginning on October 1. Development of the annual Budget begins in April, six months prior to its implementation.

Even with the State's commitment to provide estimated funding levels prior to the time when budgets are required to be finalized, the notification does not represent a firm commitment from the State to pay the PIHPs any guaranteed amount. The capitated revenue payments that the CMHPSM PIHP receives is derived by the number of actual eligible individuals within the four-county region, which fluctuates on a monthly basis. The CMHPSM receives PMPM (Per Member Per Month) capitation payments for each individual whom has Medicaid insurance coverage in that given month. The total revenue received in these monthly payments, is derived from an actuarily sound calculation method to provide enough funding to serve the smaller subset of eligible consumers which qualify medically for PIHP/CMHSP services. Such uncertainty in payments from the State increases the complexity of managing budgeted expenses. An additional restriction that creates further challenges is the inability of the CMHPSM to interchange funds among consumer benefit groups.

Uncertainty in funding from the State makes it imperative that the local Community Mental Health Service Programs (CMHSPs) develop accurate budgets for the Direct and Contractual services that they provide to eligible Consumers in their County of operation. While the CMHSPs have little immediate impact on funding levels, the State moved to an actuarially based rate methodology which is now entirely based upon relatively recent service experience within the region. Essentially service encounters from the previous fiscal years are summarized on a state-wide basis, geographic factors are applied and unique rate matrixes are utilized to generate revenue payments within each region. Historical funding levels, funding availability and projected service trends are used in conjunction with projected required funding requests submitted by the CMHSPs build the region's budget. Adverse changes to the budget assumptions for the consumers that will be served must be identified quickly so that plans can be developed and implemented to offset those issues that drive costs above the budgeted levels. If those cost increases cannot be offset, or if revenues are not realized at Budget levels, the CMHPSM will follow the Financial Strategy and Risk Reserve Management policy and utilize the Internal Service Fund to the extent necessary to cover budget deficit situations.

A variety of other factors lead to more difficulty in forecasting future budgets. The 1115 Waiver implementation, which may lead to funding stream changes or statewide service changes is set to begin as soon as CMS approves the State's waiver submission. The statewide reorganization and privatization efforts such as Legislative Section 298 and other similar proposals could impact the CMHPSM and the rest of the PIHP/CMHSP system. External provider network funding levels are impacted by provider capacity, direct care worker compensation and service array expansion. Federal changes such as the managed care, home and community-based waiver or other regulatory revisions or additions impact the financial outlook of the CMHPSM. Threats to Federal funding like proposals to Block Grant Medicaid funding or sunset Medicaid expansion may drastically alter the financial forecasts of the CMHPSM region. Health Michigan Plan is a new service category and the funding has not stabilized. The expansion of autism has no service industry history and thus influences the rates. And finally, the opioid crisis has increased the need for Medication Assisted Treatment thus placing additional strain on funding.

Requests for Information

This financial report is designed to provide a general overview of the finances of the Community Mental Health Partnership of Southeast Michigan. Questions concerning this information may be directed to Suzanne Stolz, CMHPSM CFO at 705 N. Zeeb Rd. Ann Arbor, Michigan 48103.

BASIC FINANCIAL STATEMENTS

Community Mental Health Partnership of Southeast Michigan
Statement of Net Position
September 30, 2017

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Assets			
Cash and cash equivalents	$ 8,698,832	$ -	$ 8,698,832
Investments - unrestricted	518,638	-	518,638
Accounts receivable	438	7,265	7,703
Due from other funds	4,257,741	-	4,257,741
Due from other agencies	493,200	-	493,200
Due from affiliate partners	2,376,054	-	2,376,054
Due from MDHHS	3,566,660	-	3,566,660
Prepaid expenses	15,558	-	15,558
Investments - restricted	-	11,385,685	11,385,685
Total assets	19,927,121	11,392,950	31,320,071
Liabilities			
Accounts payable	1,013,494	-	1,013,494
Accrued liabilities	1,056	-	1,056
Accrued payroll and benefits	31,896	-	31,896
Due to other funds	-	4,257,741	4,257,741
Due to other agencies	518,390	-	518,390
Due to affiliate partners	9,852,577	-	9,852,577
Due to MDHHS	1,593,697	-	1,593,697
Unearned revenue	6,899,423	-	6,899,423
Total liabilities	19,910,533	4,257,741	24,168,274
Net position			
Restricted for risk management	-	7,135,209	7,135,209
Unrestricted	16,588	-	16,588
Total net position	$ 16,588	$ 7,135,209	$ 7,151,797

Community Mental Health Partnership of Southeast Michigan
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2017

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Operating revenues			
State funding			
Medicaid capitation	$ 130,328,246	$ -	$ 130,328,246
Healthy Michigan	14,365,138	-	14,365,138
Autism	5,133,021	-	5,133,021
DHS incentive	172,614	-	172,614
Performance Bonus Incentive Pool (PBIP)	1,065,413	-	1,065,413
Medicaid - substance use	1,533,356	-	1,533,356
PA2 revenues	2,099,644	-	2,099,644
Substance use - State portion	811,068	-	811,068
Total State funding	155,508,500	-	155,508,500
Federal funding			
Substance use - Federal portion	3,306,328	-	3,306,328
Block grant	183,805	-	183,805
Total Federal funding	3,490,133	-	3,490,133
Affiliation charges	259,542	-	259,542
Contributions - Local match drawdown	1,577,780	-	1,577,780
Total operating revenues	160,835,955	-	160,835,955
Operating expenses			
Funding for affiliate partners			
Lenawee Community Mental Health Authority	16,392,355	-	16,392,355
Community Mental Health Services of Livingston County	26,206,636	-	26,206,636
Monroe Community Mental Health Authority	30,052,045	-	30,052,045
Washtenaw County Community Mental Health	72,889,744	-	72,889,744
Total funding for CMHSP partners	145,540,780	-	145,540,780
Substance use disorder expense			
Contracted services - Medicaid	1,793,426	-	1,793,426
Contracted services - Healthy Michigan	3,212,842	-	3,212,842
Contracted services - PA2	1,537,196	-	1,537,196
Contracted services - Prevention	1,061,753	-	1,061,753
Contracted services - State agreement	2,666,353	-	2,666,353
Contracted services - Other	120	-	120
SUD administrative expense	660,492	-	660,492
Total substance use disorder expense	10,932,182	-	10,932,182
Other contractual obligations			
Hospital Rate Adjuster	2,090,086	-	2,090,086
Use and HICA Tax	2,573,265	-	2,573,265
Local match expense	1,577,780	-	1,577,780
Total other contractual obligations	6,241,131	-	6,241,131
Administrative expense			
Board per diem	(89,834)	-	(89,834)
Capital outlay - under $5,000	47,177	-	47,177
Conventions	11,153	-	11,153
Dues and memberships	5,266	-	5,266

The notes to the financial statements are an integral part of this statement.

Community Mental Health Partnership of Southeast Michigan
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2017

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Administrative expense (continued)			
Insurance	$ 3,731	$ -	$ 3,731
Legal and accounting	30,333	-	30,333
Professional contracts	1,005,706	-	1,005,706
Rent	113,279	-	113,279
Salaries and fringes	1,249,991	-	1,249,991
Supplies	25,640	-	25,640
Travel and training	13,488	-	13,488
Utilities	16,218	-	16,218
All other costs	268	-	268
Total administrative expense	2,432,416	-	2,432,416
Total operating expenses	165,146,509	-	165,146,509
Operating income (loss)	(4,310,554)	-	(4,310,554)
Nonoperating revenues (expenses)			
Investment income	1,141	55,257	56,398
Other nonoperating income	120	-	120
Non-operating income (loss)	1,261	55,257	56,518
Transfer in (out)	4,310,554	(4,310,554)	-
Change in net position	1,261	(4,255,297)	(4,254,036)
Net position, beginning of year	15,327	11,390,506	11,405,833
Net position, end of year	$ 16,588	$ 7,135,209	$ 7,151,797

Community Mental Health Partnership of Southeast Michigan
Statement of Cash Flows
For the Year Ended September 30, 2017

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Cash flows from operating activities			
Receipts from the State and other governments	$ 146,853,026	$ 6,562,655	$ 153,415,681
Payments to employees	(1,246,371)	-	(1,246,371)
Payments to affiliates and other governments	(144,560,600)	-	(144,560,600)
Payments to suppliers and providers	(12,377,757)	-	(12,377,757)
Net cash provided by (used in) operating activities	(11,331,702)	6,562,655	(4,769,047)
Cash flows from noncapital financing activities			
Transfers from other funds	4,310,554	(4,310,554)	-
Receipts for other nonoperating income	120	-	120
Net cash provided by (used in) noncapital financing activities	4,310,674	(4,310,554)	120
Cash flows from investment activities			
Investment income	1,141	55,257	56,398
Sale (purchase) of investments	486,362	(2,307,358)	(1,820,996)
Net cash provided by (used in) investment activities	487,503	(2,252,101)	(1,764,598)
Net increase in cash and cash equivalents	(6,533,525)	-	(6,533,525)
Cash and cash equivalents, beginning of year	15,232,357	-	15,232,357
Cash and cash equivalents, end of year	$ 8,698,832	$ -	$ 8,698,832
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (4,310,554)	$ -	$ (4,310,554)
Changes in assets and liabilities:			
Accounts receivable	3,300	8,385	11,685
Due from other funds	(4,257,741)	2,296,529	(1,961,212)
Due from other agencies	(39,779)	-	(39,779)
Due from affiliate partners	480,914	-	480,914
Due from MDHHS	(1,523,839)	-	(1,523,839)
Prepaid expenses	6,908	-	6,908
Accounts payable	(268,774)	-	(268,774)
Accrued liabilities	(1,284)	-	(1,284)
Accrued payroll and benefits	3,620	-	3,620
Due to other funds	(2,296,529)	4,257,741	1,961,212
Due to other agencies	518,390	-	518,390
Due to affiliate partners	6,740,397	-	6,740,397
Due to MDHHS	722,985	-	722,985
Unearned revenue	(7,109,716)	-	(7,109,716)
Net cash provided by (used in) operating activities	$ (11,331,702)	$ 6,562,655	$ (4,769,047)

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Community Mental Health Partnership of Southeast Michigan (the Entity) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Entity.

Reporting Entity

Community Mental Health Partnership of Southeast Michigan was formed by the Community Mental Health Services Program (CMHSP) Participants to serve as the prepaid inpatient health plan ("PIHP") for the four counties designated by the Michigan Department of Health and Human Services as Region 6. The CMHSP Participants include Lenawee Community Mental Health Authority, Community Mental Health Services of Livingston County, Monroe Community Mental Health Authority and Washtenaw County Community Mental Health.

Community Mental Health Partnership of Southeast Michigan is a regional entity, which was formed pursuant to 1974 P.A. 258, as amended, MCL §330.1204b, as a public governmental entity separate from the CMHSP Participants that established it.

Financial Statement Presentation

Under GASB 34, the Entity is considered a special purpose government and has elected to present the basic statements as an Enterprise Fund (a type of proprietary fund) which is designed to be self-supporting. Enterprise Funds distinguish operating revenues and expenses from nonoperating items. The principal operating revenues of the Entity are charges related to serving its customers (including primarily "per member per month" capitation and state and county appropriations). Operating expenses for the Entity includes cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses including investment income and interest expense.

As a general rule, the effect of interfund activity has been eliminated when presenting total proprietary fund activity.

All amounts shown are in U.S. dollars.

Fund Accounting

The accounts of the Entity are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenue, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Entity reports the following major enterprise fund:

Mental Health Operating – This fund is used to account for those activities that are financed and operated in a manner similar to private business relating to revenues earned, costs incurred, and/or net income. This fund of the Entity accounts for its general operations.

In addition, the Entity reports the following major internal service fund:

Medicaid Risk Reserve – This fund is used to cover the risk of overspending the Medicaid Managed Care Specialty Services Program Contract within the established risk corridor. This contract provides for the use of Department of Health and Human Services funding for the establishment of Internal Service Funds. Expenses from this fund will occur when, in any one fiscal year, the Entity finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. The proprietary funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The proprietary funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities associated with their activity are included on the statement of net position.

Estimates
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 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.

Cash and Cash Equivalents
The Entity's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits, and certificates of deposit.

Investments
Investments for the Entity are reported at fair value (generally based on quoted market prices).

Accounts Receivable/Payable
Accounts receivable/payable in all funds report amounts that have arisen in the ordinary course of business. Accounts receivable is stated net of allowances for uncollectible amounts, if any.

Due from/Due to Other Governmental Units
Due from/due to other governmental units consist primarily of amounts due from/to the Entity Participants and the State of Michigan.

Inventories
The Entity does not recognize supplies inventory as an asset. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Prepaid Expenses
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

Capital Assets
Capital assets are defined by the Entity as individual assets with an initial cost equal to or more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	**Years**
Land	Not Depreciated
Buildings and Improvements	4-30
Furniture, Fixtures, and Equipment	3-10
Computers and Software	3-5
Vehicles	5

The Entity reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred, the asset is written down to its net realizable value and a related expense is recognized in the current year.

Accrued Payroll and Benefits
Accrued payroll and benefits relate to salaries and wages earned in September but not paid until October.

Unearned Revenue
The Entity reports unearned revenue when revenue does not meet either the “measurable” and “available” criteria for recognition in the current period, or when resources are received by the Entity before it has a legal claim to them, such as when grant money is received prior to the incurrence of qualifying expenses. In subsequent periods, when both revenue recognition criteria are met, or when the Entity has legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

Compensated Absences
Accumulated compensated absences (i.e., paid time off) are reported as expenses when used. Employees are not paid for the accumulated compensated absences when separating from the Entity.

Deferred Outflows/Inflows of Resources
In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Entity has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Entity has no items that qualify for reporting in this category.

Net Position
Net investment in capital assets
This category consists of capital asset balances, net of accumulated depreciation, less outstanding balances of debt related to those assets.

Restricted
Net position in this category is reported as restricted when constraints placed on net position use is either:
- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

Unrestricted
If net position does not meet the criteria for the above categories, it is reported as unrestricted.

In addition, the Entity will first use restricted resources when an expense is incurred for purposes for which either restricted or unrestricted net position is available.

Restrictions on Net Position
Medicaid Risk Reserve
The Entity authorized the establishment of an internal service fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program Contract within the established risk corridor. This contract provides for the use of Michigan Department of Health and Human Services (MDHHS) funding for the establishment of Internal Service Funds.

Expenses from this fund will occur when, in any one fiscal year, the Entity finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

MDHHS Revenue
The Entity serves as the Pre-Paid Inpatient Health Plan for the area that includes Lenawee, Livingston, Monroe and Washtenaw Counties. The Entity contracts directly with the MDHHS to administer mental health and substance abuse revenues for covered services provided to eligible residents of these counties.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Michigan's statutory authority allows governmental entities to invest in the following investments:

- 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 institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 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 Investments 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.

At September 30th the carrying amount of the Entity's cash and cash equivalents are as follows:

Description	Amount
Checking, Money Market, & Liquid Asset Accounts	8,698,832

Cash and Cash Equivalents - Restricted

Cash and cash equivalents have been restricted in the Internal Service Fund for the expected future risk corridor requirements of the MDHHS contract.

Interest Rate Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Entity's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the summary of significant accounting policies. The Entity's investment policy does not have specific limits in excess of state law on investment credit. The ratings for each investment are identified above for investments held at year-end.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Entity's deposits may not be returned. State law does not require and the Entity does not have a policy for deposit custodial credit risk. As of year-end $8,449,807 of the Entity's bank balance of $8,699,807 was exposed to custodial credit risk because it was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The Entity believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Entity evaluates each financial institution with which it deposits funds and assesses the level of risk at each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk as identified in the summary of significant accounting policies. The Entity's investment policy does not have specific limits in excess of state law on concentration of credit risk.

Investments
As of September 30th, the Entity had the following investments:

Investments	Amount
CDs held in investment account	518,638
Total	518,638

Investments - Restricted
As of September 30th, the Entity had the following restricted investments:

Investments - restricted	Amount
U.S. agencies	3,492,465
Money markets	7,649,389
CDs held in investment account	243,831
Total	11,385,685

Investment Type	Rating	Amount
U.S. agencies:		
Federal Home Loan Banks	AAA	997,120
Federal Farm Credit Bank	AAA	498,195
Federal Home Loan Mtg Group	AAA	998,750
Federal Home Loan Mtg Group	AAA	998,400
Total U.S. agencies		3,492,465

Investments
State statutes authorize the Entity to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. See above for a listing of the Entity's investments. The Entity's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments
Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Entity's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments – Restricted

Years	1 - 5	6 - 10	11 - 15	Total
U.S. Agencies	3,492,465	-	-	3,492,465
Total	3,492,465	-	-	3,492,465

Custodial Credit Risk – Investments
Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Entity will not be able to recover the value of its investments that are in the possession of an outside party. The Entity requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Entity does not have any additional policies for custodial credit risk over investments.

Credit Risk - Investments
State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest

classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Entity's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk – Investments - Restricted
The Entity's investment policy places no limit on the amount it may invest in any one issuer. At September 30th, concentrations in securities of any one issuer greater than 5% of investment fair value were as follows:

Investment Type	Issuer	% of Portfolio
U.S. agencies	Federal Home Loan Mtg Group	17.54%
U.S. agencies	Federal Home Loan Banks	8.76%

Fair Value of Investments - Restricted
The Entity measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At year-end, the Entity had the following recurring fair value measurements.

	Value as of	Fair Value Measurements Using		
Description	Sept 30th	Level 1	Level 2	Level 3
Debt Securities				
U.S. Agencies	3,492,465	3,492,465	-	-
Total debt securities	3,492,465	3,492,465	-	-

NOTE 3 – ACCOUNTS RECEIVABLE

The Entity believes that the accounts receivable will be collected in full and therefore the receivable balance has not been offset by an allowance for doubtful accounts.

NOTE 4 - DUE FROM OTHER AGENCIES

Due from other agencies as of September 30th consists of the following:

Description	Amount
Lenawee County PA2	45,441
Livingston County PA2	137,503
Monroe County PA2	99,073
Washtenaw County PA2	205,106
Other agencies	6,077
Total	493,200

NOTE 5 - DUE FROM AFFILIATE PARTNERS

Due from other affiliate partners as of September 30th consists of the following:

Description	Amount
Lenawee Community Mental Health Authority – Cost Settlement	1,886,537
Community Mental Health Services of Livingston County – Cost Settlement	148,880
Monroe Community Mental Health Authority – Cost Settlement	184,511
Washtenaw County Community Mental Health – Cost Settlement	156,126
Totals	2,376,054

NOTE 6 - DUE FROM MDHHS

Due from MDHHS as of September 30th consists of the following:

Description	Amount
Due from MDHHS – Veteran's Navigator	7,633
Due from MDHHS – DHS Incentive	81,012
Due from MDHHS – Medicaid Autism	3,222,398
Due from MDHHS – PBIP Bonus	10,997
Due from MDHHS – PIHP Withhold	169,867
Grants receivable	74,753
Totals	3,566,660

NOTE 7 - DUE TO OTHER AGENCIES

Due to other agencies as of September 30th consists of the following:

Description	Amount
Hospital Rate Adjustment (HRA)	518,390

NOTE 8 - DUE TO AFFILIATE PARTNERS

Due to Affiliate Partners as of September 30th consists of the following:

Description	Amount
Lenawee Community Mental Health Authority	664,706
Community Mental Health Services of Livingston County	1,434,038
Monroe Community Mental Health Authority	3,263,448
Washtenaw County Community Mental Health	4,490,385
Total	9,852,577

NOTE 9 - DUE TO MDHHS

Due to MDHHS as of September 30th consists of the following:

Description	Amount
Due to MDHHS – HICA tax	277,038
Due to MDHHS – HSW	152,418
Due to MDHHS – Block Grant	1,164,241
Total	1,593,697

NOTE 10 - UNEARNED REVENUE

The amount reported as unearned revenue represents revenues received in advance of the period earned as follows:

Description	Amount
Unearned PA2 revenues	6,899,423

NOTE 11 – RETIREMENT PLANS

Defined Contribution Retirement Plan – 401(a)
Plan Description
The Entity offers all employees a retirement plan created in accordance with the Internal Revenue Code, Section 401(a). The assets of the plan were held in trust for the exclusive benefit of the participants (employees) and their beneficiaries. United of Omaha Life Insurance Company acts as the custodian for the plan and holds the custodial account for the beneficiaries of this Section 401(a) plan.

The assets may not be diverted to any other use. United of Omaha Life Insurance Company are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. Plan balances and activities are not reflected in the Entity's financial statements.

Plan provisions are established or amended by Board resolution. This plan is funded solely by employer contributions.

Eligibility
All employees are eligible once they are over the age of 21.

Contributions
The Entity matches (into the 401(a) plan) the first 3.0% of the employee contribution into the 457 plan. An additional employer match of up to 1.5% is available if the employee contributes up to an additional 3.0%. Maximum employer match is 4.5% with employee contribution of 6%.

Employee Contribution Example	Employer Contribution Example	Total Contribution
3%	3%	6%
Additional 1%	Additional .5%	7.5%
Additional 1%	Additional .5%	9%
Additional 1%	Additional .5%	10.5%

Normal Retirement Age & Vesting
Retirement age as defined by the plan is 59 1/2 years of age. Contributions are vested immediately.

Forfeitures
Contributions are 100% vested immediately therefore there are no forfeitures.
For the year ended September 30th, employer contributions amounted to $50,100. The outstanding liability to the plan at year-end was $981.

Deferred Compensation Retirement Plan – 457
Plan Description
The Entity offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in trust, as described in IRC Section 457 for the exclusive benefit of the participants (employees) and their beneficiaries. United of Omaha Life Insurance Company acts as the custodian for the plan and holds the custodial account for the beneficiaries of this plan.

The assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Entity's financial statements.

Plan provisions are established or amended by Board resolution. Under the plan, employees may elect to defer a portion of their wages, subject to Internal Revenue Service limits.

This plan is funded solely by employee contributions.

Eligibility
All employees are eligible once they are over the age of 21.

Contributions
The Entity matches (into the 401(a) plan) the first 3.0% of the employee contribution into the 457 plan. An additional employer match of up to 1.5% is available if the employee contributes up to an additional 3.0%. Maximum employer match is 4.5% with employee contribution of 6%.

Employee Contribution Example	Employer Contribution Example	Total Contribution
3%	3%	6%
Additional 1%	Additional .5%	7.5%
Additional 1%	Additional .5%	9%
Additional 1%	Additional .5%	10.5%

Normal Retirement Age & Vesting
Retirement age as defined by the plan is 59 1/2 years of age. Contributions are vested immediately.

Forfeitures
Contributions are 100% vested immediately therefore there are no forfeitures.

Funding
For the year ended September 30th, contributions by employees amounted to $85,815. The outstanding liability to the plan at year-end was $1,789.

NOTE 12 - OPERATING LEASES

The Entity has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements. Lease expense for the fiscal year was approximately $93,966.

The future minimum lease obligations as of September 30th, were as follows:

Year Ending September 30th	Amount
2018	93,966

NOTE 13 - RISK MANAGEMENT

Commercial Insurance
The Entity is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Entity has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Risk Reserve Fund
The regional entity covers the costs up to 105% of the annual Medicaid and Healthy Michigan contract. The entity and MDHHS equally share the costs between 105% to 110% of the contract amounts. Costs in excess of 110% of the contract are covered entirely by MDHHS.

The regional entity has established a Medicaid Risk Reserve Fund, in accordance with Michigan Department of Health and Human Services guidelines, to assist in managing any potential operating shortfalls (as noted above) under the terms of its contract with the MDHHS.

NOTE 14 – CONTINGENT LIABILITIES

Under the terms of various federal and state grants and regulatory requirements, the Entity is subject to periodic audits of its agreements, as well as a cost settlement process under the full management contract the state. Such audits could lead to questioned costs and/or requests for reimbursement to the grantor or regulatory agencies. Cost settlement adjustments, if any, as a result of compliance audits are recorded in the year that the settlement is finalized. The amount of expenses which may be disallowed, if any, cannot be determined at this time, although the Entity expects such amounts, if any, to be immaterial.

NOTE 15 – ECONOMIC DEPENDENCE

The Entity receives over 95% of its revenues directly from MDHHS.

NOTE 16 – TRANSFERS

The Medicaid Risk Reserve Fund transferred $4,310,554 to the Mental Health Operating Fund during the year to cover overspending of the Medicaid Managed Care Specialty Services Program Contract.

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*

Community Mental Health Partnership of Southeast Michigan
Ann Arbor, Michigan

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, each major fund, and the aggregate remaining fund information of Community Mental Health Partnership of Southeast Michigan (the Entity) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements, and have issued our report thereon dated April 3, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Entity'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 Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 entity'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 Entity'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
April 3, 2018

Roslund Prestage & Company
Certified Public Accountants

Community Mental Health Partnership of Southeast Michigan
Financial Statements
September 30, 2017