Community Mental Health Partnership of Southeast Michigan

Financial Statements
September 30, 2019

RPC
Roslund Prestage & Company
Certified Public Accountants

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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, 2019, 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, 2019, 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.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that Community Mental Health Partnership of Southeast Michigan will continue as a going concern. As discussed in Note 17 to the financial statements, Community Mental Health Partnership of Southeast Michigan has a deficit net position of $(13,063,242) and has incurred substantial annual deficits in the last three fiscal years which raises substantial doubt about its ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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 June 2, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

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

June 2, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Community Mental Health Partnership Of Southeast Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

FY 2019

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 regional entities acting as PIHPs, created by the CMHSPs. As the PIHP, the CMHPSM is primarily responsible for the operation of the following:

1. Concurrent 1915(b)/(c) Medicaid Waivers
2. 1115i Waiver
3. Healthy Michigan Plan
4. Autism Benefit
5. Substance Use Disorder Funding (Medicaid, HMP, Block Grant, PA2)
6. 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 enough administrative capability to carry out the requirements and obligations of the Specialty Service contract.

Mission

Through effective partnerships, the CMHPSM ensures and supports the provision of high quality integrated care that is cost effective and focuses on improving the health, wellness and quality of life of people living in our region

Financial Overview

Financial statements provided use 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. By the State of Michigan's design, CMHPSM does not have any Local Reserves.

	2019
Assets	
Cash and Cash Equivalents – Unrestricted	$ 10,533,110
Investments – Restricted	0
Receivables	17,711,188
Prepaid Expenses	87,012
Capital Assets	39,000
Total Assets	$28,331,310
Liabilities	
Accounts Payable and Accrued Liabilities	$34,441,057
Unearned Revenue	6,992,496
Total Liabilities	$41,433,552
Net Position	
Net investment in capital assets	39,000
Unrestricted	(13,102,242)
Total Net Position	$(13,063,242)

Statement of Activities Including Change in Net Position

The statement of activities 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 Health and Human Services (MDHHS) represents 94% of the total funding and Substance Use Disorder Services represents 1% 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 MDHHS as required by the CMHPSM contract with MDHHS.

During the fiscal year ended September 30, 2019, the net position of CMHPSM decreased by approximately $10,000,000 due to CMHSP expenditures and the utilization of the Medicaid Risk Reserve.

Revenues	**2019**
Federal Grant Funding	$5,290,724
Medicaid Capitation	134,056,775
Healthy Michigan Plan	16,391,347
Autism	9,445,073
MDHHS Risk Corridor Share	3,533,961
Medicaid Substance Use	2,400,132
PA2	2,065,596
Substance Use Disorder-State portion	1,182,735
Affiliation Charges	236,852
Contributions – Local Match Drawdown from CMHSPs	1,577,780
Incentives	1,753,569
Investment Income	29,503
Total Revenues	$177,964047
Expenditures	
Funding for Lenawee CMHSP	$17,351,103
Funding for Livingston CMHSP	30,724,607
Funding for Monroe CMHSP	34,426,908
Funding for Washtenaw CMHSP	80,655,401
SUD Expenditures	15,445,296
Hospital Rate Adjuster Payments	4,091,164
Insurance Provider Assessment Tax	1,754,584
Local Match Drawdown	1,577,780
Administrative Expense	$2,034,173
Total Expenditures	$188,061,015
Excess of Expenditures Over Revenue	($10,096,970)

Factors Impacting The Future

There are many factors impacting the Community Mental Health Partnership of Southeast Michigan (CMHPSM) as the Pre-Paid Inpatient Health Plan (PIHP), and its four Community Mental Health Service Program (CMHSP) partners within our four-county region. Projecting and budgeting revenue continue to be a difficult endeavor due to the volatile nature of our funding streams derived from MDHHS. Forecasting the costs of delivering behavioral health services within the CMHPSM region has been complicated by a multitude of factors. The CMHPSM region is a long-established partnership that has year after year managed its expenditures within the revenue allocated until rates were redeveloped beginning in FY2016. The current financial status of the CMHPSM stems completely from deficits occurring in FY2017, FY2018 and FY2019.

Revenue

There are issues related to revenue forecasting every year due to the lag in rate setting information for each upcoming fiscal year. The budget for each fiscal year is developed several months prior to Michigan Department of Health and Human Services (MDHHS) notification of capitation payment rates and eligible estimates. The CMHPSM Board of Directors reviews and approves an initial annual budget in September for the subsequent fiscal year beginning on October 1. Development of each annual budget begins in April, six months prior to its implementation. The statewide actuarial certification for capitation payments is not typically complete and added to our PIHP contract until after the fiscal year has begun.

Revenue from the capitated payments that the CMHPSM receives as the PIHP is derived by the number of actual eligible individuals within the four-county region, which fluctuates continually every month. The difficulty in projecting revenue stems from this ongoing uncertainty of both the number of eligible individuals within each program eligibility category and the capitation payment rates associated with those programs. The CMHPSM receives PMPM (Per Member Per Month) capitation payments for everyone who has Medicaid, Healthy Michigan and/or Habilitation Supports Waiver insurance coverage in that given month. The total revenue received in these monthly payments, is derived from a rate setting methodology which is considered to be actuarily sound on a statewide basis.

The existing rate setting structure has included a limited number of factors to calculate the geographic factor which impacts our region's share of the statewide revenue negatively impacted our region. Moving forward MDHHS has committed to providing more transparency to the rate setting structures and payment systems. The proposed expansion of rate setting variables that are to impact new capitation payments, geographic and area factors is set to be implemented in FY2020. Our region was significantly impacted in a negative manner during the rate setting changes that were implemented over FY2016 and FY2017. The implementation and continued use of these geographic factors correlate with revenue levels which have not kept pace with service expenditure increases in the CMHPSM region. These rate factors have been re-calculated for FY2020 and will positively impact the financial status of the organization moving forward.

Revenue to the CMHPSM is also impacted by the different funding streams for our programs that are constantly in a state of flux. There has been a continued issue in our region over FY2017, FY2018 and now FY2019 of excessive churn between our Medicaid Disabled Aged and Blind (DAB) population to the Healthy Michigan Plan (HMP) Medicaid expansion population. Many individuals that have long qualified as a DAB enrollee that we serve, have moved to HMP. This migration negatively impacts our region's revenue, as we receive significantly less revenue in HMP per member per month compared to DAB. The expansion of the Autism population (both in the expansion of the age of individuals eligible for the services and the number of individuals medically eligible) has not been met with adequate revenue to our region. The transition of the Autism funding from a retrospective cost reimbursement model to a prospective capitated payment, continues to negatively impact our CMHSPs that have provided increased services to meet the demand, as those capitation rates do not yet capture the cost of serving our region's population.

Expenses

The CMHPSM region has experienced an increase in our expenditure levels regionally over the past two fiscal years. The PIHP has increased revenue levels to the four CMHSPs related to the increased service costs. These increased service costs stem from multiple factors. First, Medicaid is an entitlement and all eligible individuals must receive the services that are determined to be medically necessary. Second, increases to the reimbursement rates paid to stabilize the regional service provider network have increased total regional service cost within the CMHPSM region. These rate increases focused on assisting regional providers to meet the increased service demands and decreased supply of staff resource availability. The rate increases were focused on service providers that employ aide level direct care staff persons and was designed to reduce turnover and increase hourly wages for these staff roles, which improves the availability, quality and continuity of consumer services. The state has also mandated direct care wage increases for certain services, which has increased the cost of delivering those services.

The PIHP has also increased expenditures in Substance Use Disorder services across the region. An investment in both residential capacity and the effects of the Opiate epidemic on our service array have increased expenditures regionally on Substance Use Disorder services.

Financial Status

The continued uncertainty related to the future of PIHPs and CMHSPs impacts our look to the future as well. Upcoming changes to the Michigan's Medicaid waiver applications, rate setting practices, program expansions, and service array make projections for the future difficult. The CMHPSM region was financially impacted by factors that were difficult or impossible to predict over the past two fiscal years. The CMHPSM also was impacted by realities of the economy of our Southeast Michigan region, where providers have had to increase wages due to regulatory changes, labor market supply and regional service demand. The CMHPSM planned to utilize Internal Service Fund dollars in FY2018 to meet these extenuating circumstances, as it is obligated to provide these medically necessary services.

The difference between expenditures and revenue is a point of contention between the CMHPSM region and MDHHS. The CMHPSM and its partner CMHSPs filed an administrative appeal to MDHHS related to this point of contention. At the heart of the appeal is that our region has not been provided with the revenue necessary to deliver the medically necessary services that individuals are entitled to as eligible Medicaid enrollees. That appeal was dismissed and the CMHPSM and its partner CMHSPs entered into legal action against the State of Michigan in Circuit Court, Appeals Court and plans to continue the appeal to the highest level possible.

Resolution of the legal actions will impact the financial status of the CMHPSM that is currently depicted within this document. More optimistic potential resolutions, along with a revised capitated payment methodology could result in much more positive future financial outlook for the CMHPSM region. A more pessimistic outlook of potential resolutions would still provide more clarity on the CMHPSM's financial outlook moving forward, specifically related to the MDHHS portion of the shared risk corridor owed to the CMHPSM.

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 Matt Berg, CMHPSM CFO at 3005 Boardwalk Dr. Suite 200, Ann Arbor, Michigan 48108.

BASIC FINANCIAL STATEMENTS

Community Mental Health Partnership of Southeast Michigan
Statement of Net Position
September 30, 2019

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Current assets			
Cash and cash equivalents	$ 10,533,110	$ -	$ 10,533,110
Due from other agencies	417,526	-	417,526
Due from affiliate partners	3,211,736	-	3,211,736
Due from MDHHS	14,081,926	-	14,081,926
Prepaid expenses	87,012	-	87,012
Total current assets	28,331,310	-	28,331,310
Noncurrent assets			
Capital assets being depreciated, net	39,000	-	39,000
Total noncurrent assets	39,000	-	39,000
Current liabilities			
Accounts payable	475,977	-	475,977
Accrued payroll and benefits	1,084,526	-	1,084,526
Due to other agencies	935,088	-	935,088
Due to affiliate partners	30,051,289	-	30,051,289
Due to MDHHS	1,894,176	-	1,894,176
Unearned revenue	6,992,496	-	6,992,496
Total current liabilities	41,433,552	-	41,433,552
Net position			
Net investment in capital assets	39,000	-	39,000
Unrestricted	(13,102,242)	-	(13,102,242)
Total net position	$ (13,063,242)	$ -	$ (13,063,242)

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, 2019

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Operating revenues			
State funding			
Medicaid capitation	$ 134,056,775	$ -	$ 134,056,775
Healthy Michigan	16,391,347	-	16,391,347
State shared risk	3,533,961	-	3,533,961
Autism	9,445,073	-	9,445,073
Incentives	1,753,569	-	1,753,569
Medicaid - substance use	2,400,132	-	2,400,132
PA2 revenues	2,065,596	-	2,065,596
Substance use - State portion	961,587	-	961,587
Total State funding	170,608,040	-	170,608,040
Federal grant funding			
Substance use - Federal portion	5,408,674	-	5,408,674
Block grant	103,197	-	103,197
Total Federal grant funding	5,511,871	-	5,511,871
Affiliation charges	236,852	-	236,852
Contributions - Local match drawdown	1,577,780	-	1,577,780
Total operating revenues	177,934,543	-	177,934,543
Operating expenses			
Funding for affiliate partners			
Lenawee Community Mental Health Authority	17,421,403	-	17,421,403
Community Mental Health Services of Livingston County	30,749,475	-	30,749,475
Monroe Community Mental Health Authority	34,498,182	-	34,498,182
Washtenaw County Community Mental Health	80,968,629	-	80,968,629
Total funding for CMHSP partners	163,637,689	-	163,637,689
Substance use disorder expense			
Contracted services - Medicaid	1,610,641	-	1,610,641
Contracted services - Healthy Michigan	4,655,468	-	4,655,468
Contracted services - PA2	2,065,596	-	2,065,596
Contracted services - Prevention	1,107,179	-	1,107,179
Contracted services - State agreement	3,486,289	-	3,486,289
SUD administrative expense	1,963,710	-	1,963,710
Total substance use disorder expense	14,888,883	-	14,888,883
Other contractual obligations			
Hospital Rate Adjuster	4,091,164	-	4,091,164
Use and HICA Tax	1,754,584	-	1,754,584
Local match expense	1,577,780	-	1,577,780
Total other contractual obligations	7,423,528	-	7,423,528
Administrative expense			
Board per diem	175	-	175
Capital outlay - under $5,000	40,320	-	40,320
Conventions	11,994	-	11,994

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, 2019

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Administrative expense (continued)			
Depreciation expense	$ 26,000	$ -	$ 26,000
Dues and memberships	2,711	-	2,711
Insurance	12,244	-	12,244
Legal and accounting	90,730	-	90,730
Professional contracts	535,212	-	535,212
Rent	62,581	-	62,581
Salaries and fringes	1,268,261	-	1,268,261
Supplies	17,092	-	17,092
Travel and training	29,909	-	29,909
Utilities	13,687	-	13,687
All other costs	-	-	-
Total administrative expense	2,110,916	-	2,110,916
Total operating expenses	188,061,016	-	188,061,016
Operating income (loss)	(10,126,473)	-	(10,126,473)
Nonoperating revenues (expenses)			
Investment income	29,503	-	29,503
Total nonoperating revenues (expenses)	29,503	-	29,503
Change in net position	(10,096,970)	-	(10,096,970)
Net position, beginning of year	(2,966,272)	-	(2,966,272)
Net position, end of year	$ (13,063,242)	$ -	$ (13,063,242)

Community Mental Health Partnership of Southeast Michigan
Statement of Cash Flows
For the Year Ended September 30, 2019

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Cash flows from operating activities			
Receipts from the State and other governments	$ 176,864,546	$ (1,992,653)	$ 174,871,893
Payments to employees	(223,841)	-	(223,841)
Payments to affiliates and other governments	(156,872,314)	-	(156,872,314)
Payments to suppliers and providers	(16,329,420)	-	(16,329,420)
Net cash provided by (used in) operating activities	3,438,971	(1,992,653)	1,446,318
Cash flows from investment activities			
Investment income	29,503	-	29,503
Sale (purchase) of investments	-	1,992,653	1,992,653
Net cash provided by (used in) investment activities	29,503	1,992,653	2,022,156
Net increase in cash and cash equivalents	3,468,474	-	3,468,474
Cash and cash equivalents, beginning of year	7,064,636	-	7,064,636
Cash and cash equivalents, end of year	$ 10,533,110	$ -	$ 10,533,110
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (10,126,473)	$ -	$ (10,126,473)
Depreciation expense	26,000	-	26,000
Changes in assets and liabilities:			
Accounts receivable	-	5,129	5,129
Due from other funds	1,997,782	-	1,997,782
Due from other agencies	427,294	-	427,294
Due from affiliate partners	(1,594,995)	-	(1,594,995)
Due from MDHHS	(3,570,869)	-	(3,570,869)
Prepaid expenses	(38,975)	-	(38,975)
Accounts payable	(584,907)	-	(584,907)
Accrued liabilities	-	-	-
Accrued payroll and benefits	1,044,420	-	1,044,420
Due to other funds	-	(1,997,782)	(1,997,782)
Due to other agencies	397,966	-	397,966
Due to affiliate partners	15,783,898	-	15,783,898
Due to MDHHS	(97,941)	-	(97,941)
Unearned revenue	(224,229)	-	(224,229)
Net cash provided by (used in) operating activities	$ 3,438,971	$ (1,992,653)	$ 1,446,318

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 include 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 CMHSP 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 acquisition 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
Computers and Software	3

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, savings and money market	10,517,861
Certificate of deposit	15,249
Total	10,533,110

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 $10,271,766 of the Entity's bank balance of $10,537,013 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
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.

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	32,738
Livingston County PA2	102,415
Monroe County PA2	73,241
Washtenaw County PA2	204,297
Other	4,835
Total	417,526

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	2,456,888
Community Mental Health Services of Livingston County	735,622
Monroe Community Mental Health Authority	(9,054)
Washtenaw County Community Mental Health	28,280
Totals	3,211,736

NOTE 6 - DUE FROM MDHHS

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

Description	Amount
Due from MDHHS – HSW	365,670
Due from MDHHS – PBIP Bonus	1,514,744
Due from MDHHS – PIHP Withhold	115,984
Due from MDHHS – FY18 State Shared Risk	7,517,412
Due from MDHHS – FY19 State Shared Risk	3,533,961
Due from MDHHS – HRA 4th Quarter	935,088
Grants receivable	99,067
Totals	14,081,926

NOTE 7 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets being depreciated					
Computers and software	78,000	-	-	-	78,000
Total capital assets being depreciated	78,000	-	-	-	78,000
Accumulated depreciation					
Computers and software	(13,000)	(26,000)	-	-	(39,000)
Total accumulated depreciation	(13,000)	(26,000)	-	-	(39,000)
Capital assets being depreciated, net	65,000	(26,000)	-	-	39,000

NOTE 8 - DUE TO OTHER AGENCIES

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

Description	Amount
Hospital Rate Adjustment (HRA)	935,088
Total	935,088

NOTE 9 - DUE TO AFFILIATE PARTNERS

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

Description	Amount
Lenawee Community Mental Health Authority	1,125,011
Community Mental Health Services of Livingston County	4,132,779
Monroe Community Mental Health Authority	8,386,850
Washtenaw County Community Mental Health	16,406,649
Total	30,051,289

NOTE 10 - DUE TO MDHHS

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

Description	Amount
Due to MDHHS – IPA tax	429,477
Due to MDHHS – HSW	120,449
Due to MDHHS – SUD lapse	1,344,250
Total	1,894,176

NOTE 11 - UNEARNED REVENUE

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

Description	Amount
Unearned PA2 revenues	6,992,496

NOTE 12 – 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.

Funding
For the year ended September 30th, employer contributions amounted to $53,691. The outstanding liability to the plan at year-end was $1,075.

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. United of Omaha Life Insurance Company is the agent 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 $105,674. The outstanding liability to the plan at year-end was $2,095.

NOTE 13 - 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
2020	113,491
2021	122,699
2022	126,380
2023	130,171
2024	134,076
2025	33,765

NOTE 14 - 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 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 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 15 – 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 with 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 16 – ECONOMIC DEPENDENCE

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

NOTE 17 – GOING CONCERN

As of the financial statement date, the Entity has a deficit net position of $(13,063,242) in its Mental Health Operating Fund. During fiscal year 2018, the Entity liquidated the remaining investments in its Medicaid Risk Reserve (ISF) and therefore had no risk reverses for fiscal year 2019.

As of the date of the opinion, there is evidence to show that the Entity will be unable to continue to meet its obligations as they become due within 12 months from the financial statement date. The Entity has incurred substantial annual deficits in the last 3 fiscal years which raises substantial doubt about its ability to continue as a going concern. Furthermore, future projections available as of the date of the opinion show this deficit continuing to increase.

Mitigating factors that could play a role in the Entity's ability to continue as a going concern are disclosed in Note 18.

NOTE 18 – POTENTIAL MITIGATING FACTORS

As of the date of the opinion, the Entity has taken steps to challenge the determination that capitation payments received from Michigan Department of Health and Human Services (MDHHS) were sufficient to provide for the needs of the consumers in the 4-county region that is served by the Entity. These financial statements do not include any outcome that might result from this challenge.

NOTE 19 – DEFICIT NET POSITION

As of the financial statement date, the Entity is in a deficit net position. As outlined in Numbered Letter 2016-1 issued by the Department of Treasury, this deficit does not pass the 4 Step test for proprietary funds to determine if a deficit elimination plan is required. Therefore, the Entity is required to file a deficit elimination plan with the State.

NOTE 20 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017 and will be effective for the Entity's 2019-2020 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Entities with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

GASB Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the Entity's 2020-2021 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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 Members of the Board
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, 2019, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements, and have issued our report thereon dated June 2, 2020.

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.
June 2, 2020

Community Mental Health Partnership of Southeast Michigan
Financial Statements
September 30, 2019