

**Community Mental Health Partnership
of Southeast Michigan**

Financial Statements
September 30, 2015



Community Mental Health Partnership of Southeast Michigan
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Independent Auditor's Report

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 aggregate remaining fund information of Community Mental Health Partnership of Southeast Michigan (the Entity) as of and for the year ended September 30, 2015, 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 aggregate remaining fund information of the Entity, as of September 30, 2015, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2016, 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.

Roslund, Prestage & Company, P.C.

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

March 14, 2016

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



Community Mental Health Partnership Of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FY 2015

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 Providers.

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.

Community Mental Health Partnership Of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FY 2015

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.

	<u>2015</u>
Assets	
Cash and Cash Equivalents – Unrestricted	\$11,642,561
Cash and Cash Equivalents – Restricted	8,791,000
Receivables	<u>8,730,533</u>
Total Assets	\$29,164,094
Liabilities	
Accounts Payable and Accrued Liabilities	\$ 7,458,179
Unearned Revenue	<u>12,894,630</u>
Total Liabilities	\$20,352,809
Net Position	
Restricted for Risk Management	8,804,281
Unrestricted	<u>7,004</u>
Total Net Position	<u>\$ 8,811,285</u>

Community Mental Health Partnership Of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
 FY 2015

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 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, 2015, the net position of CMHPSM increased by approximately \$7,000 due to interest income and miscellaneous revenue.

Revenues

Federal funding	\$ 2,310,330
Medicaid capitation	134,281,954
Healthy Michigan Plan	13,479,589
Autism	1,732,782
Health home	579,765
PA2	1,643,316
Substance use - State portion	370,994
Affiliation charges	119,965
Contributions - Local match drawdown from CMHSPs	1,577,780
Contributions - Local health homes	57,976
Investment income	6,976
Other non-operating income	<u>28</u>

Total revenues 156,161,455

Expenses

Funding for Lenawee CMHSP	14,933,590
Funding for Livingston CMHSP	23,293,540
Funding for Monroe CMHSP	25,821,518
Funding for WCHO CMHSP	68,612,727
SUD CA	7,814,567
Hospital Rate Adjuster	2,127,133
Use and HICA Tax	10,125,051
Local match drawdown	1,577,780
Local match for health home	57,976
Administrative expense	1,790,569

Total expenses 156,154,451

Excess of revenues over expenses \$ 7,004

Community Mental Health Partnership Of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FY 2015

Factors Impacting The Future

The budget for any particular fiscal year is developed several months prior to MDCH notification of 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 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 that amount (payments can fluctuate due to changing numbers of Eligible Consumers, the State's criteria for Consumer eligibility and if the State changes the rates that are paid for eligible Consumers). Such uncertainty in payments from the State increases the complexity of managing budgeted expenditures. 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 impact on State provided funding, they do need to understand if there are changes in the number of Consumers that they serve, the severity of the Consumers or costs to provide services to their Consumers. 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. As a last resort if those cost increases cannot be offset, or if revenues are not realized at Budget levels, the CMHPSM can utilize the Internal Service Fund (the primary Risk Management Strategy to cover these conditions) to the extent necessary or available to cover Budget deficit situations.

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 - Proprietary Funds
September 30, 2015

	Enterprise Fund	Internal Service Fund	
	Mental Health Operating	Medicaid Risk Reserve	Total Propriety Funds
Assets			
Cash and cash equivalents - unrestricted	\$ 11,642,561	\$ -	\$ 11,642,561
Accounts receivable	5,477	10,293	15,770
Due from other agencies	663,148	-	663,148
Due from affiliate partners	5,585,619	-	5,585,619
Due from MDHHS	2,427,378	-	2,427,378
Prepaid expenses	35,630	-	35,630
Cash and cash equivalents - restricted	-	8,793,988	8,793,988
Total assets	<u>20,359,813</u>	<u>8,804,281</u>	<u>29,164,094</u>
Liabilities			
Accounts payable	1,765,089	-	1,765,089
Accrued liabilities	8,804	-	8,804
Accrued payroll and benefits	60,950	-	60,950
Due to affiliate partners	4,030,326	-	4,030,326
Due to MDHHS	1,593,010	-	1,593,010
Unearned revenue	12,894,630	-	12,894,630
Total liabilities	<u>20,352,809</u>	<u>-</u>	<u>20,352,809</u>
Net position			
Restricted for risk management	-	8,804,281	8,804,281
Unrestricted	<u>7,004</u>	<u>-</u>	<u>7,004</u>
Total net position	<u>\$ 7,004</u>	<u>\$ 8,804,281</u>	<u>\$ 8,811,285</u>

Community Mental Health Partnership of Southeast Michigan
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds
For the Year Ended September 30, 2015

	Enterprise Fund Mental Health Operating	Internal Service Fund Medicaid Risk Reserve	Total Propriety Funds
Operating revenues			
State funding			
Medicaid capitation	\$ 131,965,912	\$ -	\$ 131,965,912
Healthy Michigan	13,479,589	-	13,479,589
Health home	579,765	-	579,765
Autism	1,732,782	-	1,732,782
DHS incentive	300,115	-	300,115
Medicaid - substance use	1,446,461	-	1,446,461
MI Child	569,466	-	569,466
PA2 revenues	1,643,316	-	1,643,316
Substance use - State portion	370,994	-	370,994
Total State funding	<u>152,088,400</u>	-	<u>152,088,400</u>
Federal funding			
Substance use - Federal portion	2,134,309	-	2,134,309
Block grant	176,021	-	176,021
Total Federal funding	<u>2,310,330</u>	-	<u>2,310,330</u>
Affiliation charges			
Contributions - Local match drawdown	119,965	-	119,965
Local health homes	1,577,780	-	1,577,780
Local health homes	57,976	-	57,976
Total operating revenues	<u>156,154,451</u>	-	<u>156,154,451</u>
Operating expenses			
Funding for affiliate partners			
Lenawee Community Mental Health Authority	14,933,590	-	14,933,590
Community Mental Health Services of Livingston County	23,293,540	-	23,293,540
Monroe Community Mental Health Authority	25,821,518	-	25,821,518
Washtenaw Community Health Organization	68,612,727	-	68,612,727
Total funding for CMHSP partners	<u>132,661,375</u>	-	<u>132,661,375</u>
Substance use disorder expense			
Contracted services - Medicaid	1,265,210	-	1,265,210
Contracted services - Healthy Michigan	2,148,603	-	2,148,603
Contracted services - PA2	1,627,911	-	1,627,911
Contracted services - Prevention	957,403	-	957,403
Contracted services - State agreement	1,255,031	-	1,255,031
Contracted services - Other	41,538	-	41,538
SUD administrative expense	518,871	-	518,871
Total substance use disorder expense	<u>7,814,567</u>	-	<u>7,814,567</u>
Other contractual obligations			
Hospital Rate Adjuster	2,127,133	-	2,127,133
Use and HICA Tax	10,125,051	-	10,125,051
Local match expense	1,577,780	-	1,577,780
Local health home expense	57,976	-	57,976
Total other contractual obligations	<u>13,887,940</u>	-	<u>13,887,940</u>
CMHPSM Administrative expense			
Board per diem	25	-	25
Capital outlay - under \$5,000	11,406	-	11,406

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 - Proprietary Funds
For the Year Ended September 30, 2015

	Enterprise Fund	Internal Service Fund	Total Propriety Funds
	Mental Health Operating	Medicaid Risk Reserve	
Conventions	6,133	-	6,133
Dues and memberships	3,042	-	3,042
Insurance	7,044	-	7,044
Legal and accounting	26,908	-	26,908
Professional contracts	1,027,481	-	1,027,481
Rent	10,885	-	10,885
Salaries and fringes	670,042	-	670,042
Supplies	9,979	-	9,979
Travel and training	11,240	-	11,240
Utilities	6,143	-	6,143
All other costs	239	-	239
Total administrative expense	<u>1,790,567</u>	<u>-</u>	<u>1,790,567</u>
 Total operating expenses	 <u>156,154,449</u>	 <u>-</u>	 <u>156,154,449</u>
 Operating income (loss)	 2	 -	 2
 Non-operating revenues (expenses)			
Investment income	6,974	12,616	19,590
Other non-operating income	28	-	28
Non-operating income (loss)	<u>7,002</u>	<u>12,616</u>	<u>19,618</u>
 Net income	 7,004	 12,616	 19,620
 Net position, beginning of year	 <u>-</u>	 <u>8,791,665</u>	 <u>8,791,665</u>
 Net position, end of year	 <u>\$ 7,004</u>	 <u>\$ 8,804,281</u>	 <u>\$ 8,811,285</u>

Community Mental Health Partnership of Southeast Michigan
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2015

	Enterprise Fund	Internal Service Fund	Total Propriety Funds
	Mental Health Operating	Medicaid Risk Reserve	
Cash flows from operating activities			
Receipts from the State and other governments	\$ 166,540,037	\$ 4,405,428	\$ 170,945,465
Payments to employees	(609,092)	-	(609,092)
Payments to affiliates and other governments	(149,039,793)	-	(149,039,793)
Payments to suppliers and providers	(9,097,913)	-	(9,097,913)
Net cash provided (used) by operating activities	<u>7,793,239</u>	<u>4,405,428</u>	<u>12,198,667</u>
Cash flows from investment activities			
Investment income	7,002	12,616	19,618
Net cash used by investment activities	<u>7,002</u>	<u>12,616</u>	<u>19,618</u>
Net increase in cash and cash equivalents	7,800,241	4,418,044	12,218,285
Cash and cash equivalents, beginning of year	<u>3,842,320</u>	<u>4,375,944</u>	<u>8,218,264</u>
Cash and cash equivalents, end of year	<u>\$ 11,642,561</u>	<u>\$ 8,793,988</u>	<u>\$ 20,436,549</u>
Reconciliation of operating income to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 2	\$ -	\$ 2
Changes in assets and liabilities:			
Accounts receivable	(5,477)	-	(5,477)
Due from other governmental units	(2,569,816)	4,405,428	1,835,612
Prepaid expenses	(35,630)	-	(35,630)
Accounts payable	(135,823)	-	(135,823)
Due to other governments units	137,025	-	137,025
Accrued payroll and other liabilities	69,582	-	69,582
Unearned revenue	<u>10,333,376</u>	<u>-</u>	<u>10,333,376</u>
Net cash provided (used) by operating activities	<u>\$ 7,793,239</u>	<u>\$ 4,405,428</u>	<u>\$ 12,198,667</u>

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Community Mental Health Partnership of Southeast Michigan (the Entity) conform to accounting principles generally accepted in the United States of America as applicable (GAAP) 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 Community Health 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 Community Health Organization.

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

The Entity reports its operations in the basic financial statements as an Enterprise Fund and an Internal Service Fund, which are forms of Proprietary Fund. Proprietary Funds distinguish operating revenues and expenses from nonoperating items. The principal operating revenues of the Entity’s Enterprise Fund are charges related to serving its customers (including primarily “per member per month” capitation and state and county appropriations). Operating expenses for the Enterprise Fund includes cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. 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, liabilities, net assets, 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.

Proprietary 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 Enterprise Fund of the Entity accounts for its general operations.

Proprietary Fund (Internal Service Fund) - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Basis of Accounting

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.

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

Prepaid expenses represent payments made to vendors for services that will benefit future periods.

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	5-7

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/expenditure) until then. The Entity currently 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 currently 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.

MDHHS Revenue

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

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 expenditures during the reporting period. Actual results could differ from those estimates.

The amount recorded for inpatient/residential cost liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

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.

Community Mental Health Partnership of Southeast Michigan
Notes to the Financial Statements
September 30, 2015

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	7,231,549
Certificates of Deposit	13,205,000
Total	20,436,549

A reconciliation of deposits as shown above follows:

Cash and Cash Equivalents	11,642,561
Cash and Cash Equivalents – Restricted	8,793,988
Total	20,436,549

Cash and Cash Equivalents - Restricted

Cash and cash equivalents have been restricted in the Internal Service Fund in the amount of \$8,793,988 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 \$6,986,548 of the Entity's bank balance of \$20,441,548 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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.

Community Mental Health Partnership of Southeast Michigan
Notes to the Financial Statements
September 30, 2015

NOTE 3 - DUE FROM OTHER AGENCIES

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

Description	Amount
Lenawee County PA2	52,835
Livingston County PA2	152,914
Monroe County PA2	112,158
Washtenaw County PA2	334,268
Other governmental units	10,973
Totals	663,148

NOTE 4 - 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	3,892,593
Community Mental Health Services of Livingston County – Cost Settlement	1,061,904
Monroe Community Mental Health Authority – Cost Settlement	587,561
Washtenaw Community Health Organization – Cost Settlement	43,561
Totals	5,585,619

NOTE 5 - DUE FROM MDHHS

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

Description	Amount
Due from MDHHS – HSW	405,963
Due from MDHHS – DHS Incentive	159,971
Due from MDHHS – Medicaid Autism	1,054,801
Due from MDHHS – MiChild Autism	84,525
Due from MDHHS – PIHP Withhold	174,589
Due from MDHHS – TANF Adjustment	346,000
Due from MDHHS – Health Home	125,254
IH Block Grant	76,275
Totals	2,427,378

Community Mental Health Partnership of Southeast Michigan
Notes to the Financial Statements
September 30, 2015

NOTE 6 - PREPAID EXPENSES

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Description	Amount
Software licenses	14,734
MMRMA	8,194
Michigan Association of CMH Boards	2,340
Blue Cross Blue Shield	5,663
Other prepaid expenses	4,699
Totals	35,630

NOTE 7 - DUE TO AFFILIATE PARTNERS

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

Description	Amount
Lenawee Community Mental Health Authority	38,193
Community Mental Health Services of Livingston County	586,243
Monroe Community Mental Health Authority	718,549
Washtenaw Community Health Organization	2,687,341
Totals	4,030,326

NOTE 8 - DUE TO MDHHS

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

Description	Amount
Due to MDHHS – Habilitation Supports Waiver	170,051
Due to MDHHS – Use and HICA tax	131,832
Due to MDHHS – Health Home Local	71,970
Due to MDHHS – SUD State Agreement Lapse	1,219,157
Totals	1,593,010

NOTE 9 - UNEARNED REVENUE

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

Description	Amount
Medicaid Savings	1,473,549
Healthy Michigan Savings	5,224,847
Unearned PA2 revenues	6,196,234
Totals	12,894,630

NOTE 10 - OPERATING LEASES

The Entity has entered into an annual operating lease with Washtenaw County for the use of office space at 705 N Zeeb Rd, Ann Arbor, Michigan at a cost of \$8,163.36 per month. 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 \$34,167.

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. 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. Plan balances and activities are not reflected in the Entity’s financial statements. Plan provisions are established or amended by Board resolution.

Eligibility

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

Contributions

The Entity matches the first 3.0% of the employee contribution. 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.

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 Section 457 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.

Eligibility

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

Community Mental Health Partnership of Southeast Michigan
Notes to the Financial Statements
September 30, 2015

Contributions

The Entity matches the first 3.0% of the employee contribution. 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.

Employer and Employee Contributions – 401(a) and 457 plans

For the year ended September 30, 2015, contributions by the Entity amounted to \$20,231 and contributions by the employees amounted to \$27,609.

NOTE 12 - RISK MANAGEMENT

Commercial Insurance

The Entity is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Entity participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Entity is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Entity's limits, all further payments for such loss are the sole obligation of the Entity. If for any reason MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Entity is the sole obligation of the Entity. Settled claims have not exceeded the amount of coverage in any of the past three years.

The Entity's coverage limits are \$10,000,000 for general liability, \$10,000,000 for automobile liability, \$1,000,000 for law enforcement liability, \$10,000,000 for public officials' liability and \$1,000,000 for data breach and privacy liability.

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 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 13 – RELATED PARTY TRANSACTIONS

Washtenaw County owns the land and the building in which the Entity conducts its operations. The Entity paid

\$34,167 during the year in rent to the County.

NOTE 14 – CONTINGENT LIABILITIES

Information reported to MDHHS regarding the contract and cost settlement is subject to a compliance audit. Cost settlement adjustments as a result of compliance audit(s) are recorded in the year that the settlement is finalized. Several prior cost settlements with MDHHS are still outstanding as of year-end and have yet to be finalized.

NOTE 15 – ECONOMIC DEPENDENCE

The Entity receives over 90% of its revenues from the State of Michigan either directly or indirectly from MDHHS.

NOTE 16 – CHANGE IN FUND PRESENTATION

In the prior year, the Mental Health Operating Fund was presented as a special revenue fund. During the current year, the Mental Health Operating Fund was presented as an enterprise fund. This change was made to more closely reflect operations. No restatement of net position was required as a result of this change.



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 aggregate remaining fund information of Community Mental Health Partnership of Southeast Michigan (the Entity), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements, and have issued our report thereon dated March 14, 2016.

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.

A handwritten signature in dark ink that reads "Roslund, Prestage & Company, P.C." The signature is written in a cursive, flowing style.

Roslund, Prestage & Company, P.C.
March 14, 2016



**Community Mental Health Partnership
of Southeast Michigan
Financial Statements
September 30, 2015**