Community Mental Health Partnership of Southeast Michigan

Financial Statements
September 30, 2022

Roslund Prestage & Company
Certified Public Accountants

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements as listed in the table of contents.

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, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Entity and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in the notes to the financial statements, during 2022 the Entity adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2023, 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 Entity's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

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

April 27, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Community Mental Health Partnership of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FY 2022

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 Region Six PIHP, the CMHPSM is primarily responsible for the operation of the following:

1. Concurrent 1915(b)/(c) Medicaid Waivers which include Autism, Child Waiver, EPSDT, HSW and SED waiver.
2. 1115 Demonstration Waiver
3. Healthy Michigan Plan
4. Autism Benefit
5. Substance Use Disorder Service Funding (Medicaid, HMP, Block Grant, PA2)
6. Other public funding within its designated four-county region of Lenawee, Livingston, Monroe, and Washtenaw related to Substance Use Prevention, Gambling, Veterans Service coordination and other programming.

As part of the operation of these programs, the CMHPSM must ensure that it is sufficiently staffed to carry out the administrative requirements and obligations of our revenue contracts.

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 Use Disorder services by program.

Structuring 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 requirements.

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 expense increases 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 that are subject to external restrictions on how they may be used.

		2022	2021
Assets			
	Cash and Cash Equivalents	32,763,522	28,205,679
	Receivables	41,703,396	22,390,715
	Prepaid Expenses	100,031	83,347
	Capital Assets	311,000	-
Total Assets		74,877,949	50,679,741
Liabilities			
	Accounts Payable and Accrued Liabilities	34,964,622	16,283,387
	Unearned Revenue	21,879,747	17,283,487
	Compensated Balances	60,245	57,380
	Lease Liability	318,910	
Total Liabilities		57,223,524	33,624,254
Net Position			
	Net Investment in Capital Assets	(7,910)	
	Restricted for Risk Management	15,701,187	15,026,143
	Unrestricted	1,961,148	2,028,442
Total Net Position		17,654,425	17,054,585

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 95% of the total annual funding. The remaining revenue is State grants, PA2 Tax Revenue and Local Match Drawdown. Local Match Drawdown is collected by the CMHPSM from the CMHSPs and passed on to MDHHS as required by the CMHPSM contract with MDHHS.

Behavioral Health Services represent 89% of annual expenditures, Substance Use Disorder Services represent 9% of the annual expenses of CMHPSM. Administrative Expense represents less than 1% of annual expenses.

Revenues		
	Medicaid Capitation	169,953,489
	Healthy Michigan Plan	14,403,306
	Autism	15,921,214
	Medicaid Substance Abuse	14,431,267
	CCBHC	4,294,676
	Health Homes	324,718
	PA2	3,050,000
	State and Federal Grants	6,960,013
	Affiliation Charges	187,277
	Contributions-Local Match Drawdown from CMHSPs	940,504
	Incentives	219,917
	Investment Income	14,668
Total Revenues		230,701,050
Expenditures		
	Funding for Lenawee CMHSP	21,888,960
	Funding for Livingston CMHSP	38,413,930
	Funding for Monroe CMHSP	40,845,157
	Funding for Washtenaw CMHSP	98,626,685
	SUD Expenditures	20,472,760
	Hospital Rate Adjuster Payments	5,179,328
	Insurance Provider Assessment Tax	1,939,711
	Local Match Drawdown	940,504
	Administrative Expense	1,794,175
Total Expenditures		230,101,210
	Excess of Revenue Over Expenditures	599,840

Factors Impacting the Future

There are many factors impacting the financial position of 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 which are based upon a monthly capitated payment process which has frequent rate changes and monthly population variation. Forecasting the costs of delivering behavioral health services within the CMHPSM region is always complicated. 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 for FY2017-FY2019. While the deficits of FY2017, FY2018 and FY2019 continue to impact the financial position of the CMHPSM, the strong financial showing in FY2020 through FY2022 has significantly reversed that trend.

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 the 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 start of the that fiscal year.

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. FY2022 saw a continued elevation of individuals eligible for Healthy Michigan or TANF benefits.

Beginning in FY2020 a rate methodology change that is more favorable to our region's rates began which was more fully implemented in FY2021. Our FY2022 capitation rates are more favorable to the CMHPSM in comparison to the previous rate methodology in place for FY2017, FY2018 and FY2019. Our rates have also had direct care premium pay included for the past two fiscal years.

Expenses

The CMHPSM region has experienced a decrease in our service expenditure levels regionally during FY2020 and FY2021 due to the COVID pandemic. We have begun to see an upward trend in service levels in FY 2022 towards pre-pandemic levels.

Financial Status

The continued uncertainty related to the future of PIHPs and CMHSPs impacts our look to the future as well. Upcoming changes to Michigan's Medicaid waiver applications, rate setting practices, program expansions, and service array, make projections for the future difficult.

The financial status of the CMHPSM in FY2022 is positive and includes a fully funded ISF and significant carryforward funds for FY 2023. Current and future financial status projections are more closely aligned with the majority of our region's positive fiscal history, rather than the outlier period of FY2017- FY2019. The CMHPSM projects to have a much clearer picture of our financial status as the deficit from those years is allowed to be eliminated. The CMHPSM is awaiting MDHHS response on revised FSRs for FY2018, FY2019 and FY2020 to denote allowable changes to ISF activity related to our financial status. These revisions allow for a more accurate reporting of the CMHPSM's financial status during the deficit years. Upon approval from MDHHS the CMHPSM would be able to eliminate the deficit in the ISF, repay the CMHSPs for the PIHP share of the risk corridor and move forward with a more positive financial future.

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, 2022

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Current assets			
Cash and cash equivalents	$ 17,735,389	$ 15,028,133	$ 32,763,522
Accounts receivable	88	-	88
Due from other funds	-	673,054	673,054
Due from other agencies	962,339	-	962,339
Due from affiliate partners	24,173,427	-	24,173,427
Due from MDHHS	15,894,488	-	15,894,488
Prepaid expenses	100,031	-	100,031
Total current assets	58,865,762	15,701,187	74,566,949
Noncurrent assets			
Capital assets being depreciated, net	311,000	-	311,000
Total noncurrent assets	311,000	-	311,000
Total assets	59,176,762	15,701,187	74,877,949
Current liabilities			
Accounts payable	2,116,195	-	2,116,195
Due to other funds	673,054	-	673,054
Due to other agencies	1,273,272	-	1,273,272
Due to affiliate partners	24,104,275	-	24,104,275
Due to MDHHS	6,797,826	-	6,797,826
Unearned revenue	21,879,747	-	21,879,747
Compensated absences, due within one year	9,037	-	9,037
Lease liability, due within one year	122,390	-	122,390
Total current liabilities	56,975,796	-	56,975,796
Noncurrent liabilities			
Compensated absences, due beyond one year	51,208	-	51,208
Lease liability, due beyond one year	196,520	-	196,520
Total noncurrent liability	247,728	-	247,728
Total liabilities	57,223,524	-	57,223,524
Net position			
Net investment in capital assets	(7,910)	-	(7,910)
Restricted for risk management	-	15,701,187	15,701,187
Unrestricted	1,961,148	-	1,961,148
Total net position	$ 1,953,238	$ 15,701,187	$ 17,654,425

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, 2022

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Operating revenues			
Medicaid capitation	$ 169,953,489	$ -	$ 169,953,489
Healthy Michigan	14,403,306	-	14,403,306
Autism	15,921,214	-	15,921,214
Behavioral health home	180,022	-	180,022
CCBHC	4,294,676	-	4,294,676
Incentives	219,917	-	219,917
Opioid health home	144,696	-	144,696
Substance use	14,431,267	-	14,431,267
PA2 revenues	3,050,000	-	3,050,000
State and federal grants	6,960,013	-	6,960,013
Affiliation charges	187,277	-	187,277
Contributions - Local match drawdown	940,504	-	940,504
Total operating revenues	230,686,381	-	230,686,381
Operating expenses			
Funding for affiliate partners			
Lenawee Community Mental Health Authority	21,888,960	-	21,888,960
Community Mental Health Services of Livingston County	38,413,930	-	38,413,930
Monroe Community Mental Health Authority	40,845,157	-	40,845,157
Washtenaw County Community Mental Health	98,626,685	-	98,626,685
Total funding for CMHSP partners	199,774,732	-	199,774,732
Substance use disorder expense			
Contracted services - Behavioral Health Home	18,253	-	18,253
Contracted services - Medicaid and Healthy Michigan	9,349,251	-	9,349,251
Contracted services - PA2	3,050,000	-	3,050,000
Contracted services - Prevention	883,517	-	883,517
Contracted services - State agreement	5,288,385	-	5,288,385
Other grant funded	295,739	-	295,739
SUD administrative	1,587,615	-	1,587,615
Total substance use disorder expense	20,472,760	-	20,472,760
Other contractual obligations			
Hospital Rate Adjuster	5,179,328	-	5,179,328
Use and IPA Tax	1,939,711	-	1,939,711
Local match	940,504	-	940,504
Total other contractual obligations	8,059,543	-	8,059,543
Administrative expense			
Capital outlay - under $5,000	51,985	-	51,985
Conferences	5,627	-	5,627
Depreciation	124,400	-	124,400
Dues and memberships	5,530	-	5,530
Insurance	9,185	-	9,185
Legal and accounting	14,484	-	14,484
Professional contracts	334,362	-	334,362
Salaries and fringes	1,199,058	-	1,199,058
Supplies	9,580	-	9,580

Community Mental Health Partnership of Southeast Michigan
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2022

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Travel and training	$ 15,994	$ -	$ 15,994
Utilities	15,008	-	15,008
Total administrative expense	1,785,213	-	1,785,213
Total operating expenses	230,092,248	-	230,092,248
Operating income (loss)	594,133	-	594,133
Nonoperating revenues (expenses)			
Investment income	12,679	1,990	14,669
Interest expense	(8,962)	-	(8,962)
Total nonoperating revenues (expenses)	3,717	1,990	5,707
Transfer in (out)	(673,054)	673,054	-
Change in net position	(75,204)	675,044	599,840
Net position, beginning of year	2,028,442	15,026,143	17,054,585
Net position, end of year	$ 1,953,238	$ 15,701,187	$ 17,654,425

Community Mental Health Partnership of Southeast Michigan
Statement of Cash Flows
For the Year Ended September 30, 2022

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Cash flows from operating activities			
Receipts from the State and other governments	$ 225,431,313	$ 14,353,089	$ 239,784,402
Payments to employees	(1,258,979)	-	(1,258,979)
Payments to affiliates and other governments	(212,165,051)	-	(212,165,051)
Payments to suppliers and providers	(21,691,658)	-	(21,691,658)
Net cash provided by (used in) operating activities	(9,684,375)	14,353,089	4,668,714
Cash flows from capital and related financing activities			
Acquisition of capital assets	(435,400)	-	(435,400)
Proceeds from lease obligation	435,400	-	435,400
Payment of lease lease	(116,490)	-	(116,490)
Payment of interest	(8,962)	-	(8,962)
Net cash provided by capital and related financing activities	(125,452)	-	(125,452)
Cash flows from noncapital financing activities			
Transfers from other funds	(673,054)	673,054	-
Net cash provided by noncapital financing activities	(673,054)	673,054	-
Cash flows from investment activities			
Investment income	12,679	1,990	14,669
Net cash provided by (used in) investment activities	12,679	1,990	14,669
Net increase in cash and cash equivalents	(10,470,202)	15,028,133	4,557,931
Cash and cash equivalents, beginning of year	28,205,591	-	28,205,591
Cash and cash equivalents, end of year	$ 17,735,389	$ 15,028,133	$ 32,763,522
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income (loss)	$ 594,133	$ -	$ 594,133
Depreciation expense	124,400	-	124,400
Changes in assets and liabilities:			
Due from other funds	-	14,353,089	14,353,089
Due from other agencies	(699,133)	-	(699,133)
Due from affiliate partners	(17,873,614)	-	(17,873,614)
Due from MDHHS	(66,792)	-	(66,792)
Prepaid expenses	(16,684)	-	(16,684)
Accounts payable	(740,459)	-	(740,459)
Accrued payroll and benefits	(62,336)	-	(62,336)
Due to other funds	(14,353,089)	-	(14,353,089)
Due to other agencies	129,392	-	129,392
Due to affiliate partners	13,542,838	-	13,542,838
Due to MDHHS	5,138,294	-	5,138,294
Unearned revenue	4,596,260	-	4,596,260
Compensated absences	2,415	-	2,415
Net cash provided by (used in) operating activities	$ (9,684,375)	$ 14,353,089	$ 4,668,714

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 revenues 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 Fund – 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 Fund – This fund is used to cover the risk associated with the Medicaid Managed Care Specialty Services Program Contract. This contract provides for the use of Department of Health and Human Services funding for the establishment of Internal Service Funds.

During the course of operations, the Entity has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. Further, certain activity occurs during the year involving transfers of resources between funds reported at gross amounts as transfers in/out.

Basis of Accounting and Measurement Focus
The accounting and financial reporting treatment is determined by the applicable 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. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.*

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, regardless of the timing of related cash flows. 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.

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 tangible and intangible assets, 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. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible capital assets in the appropriate capital asset class.

The costs of normal maintenance and repairs that do not increase the asset's capacity or efficiency or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction in process, if any, are not depreciated. Right to use assets of the Entity are amortized using the straight-line method over the shorter of the lease period or the estimated useful lives. The other capital assets of the Entity are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Computers and software	3
Right to use asset - building	4

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
The Entity’s policy permits employees to accumulate earned but unused vacation and sick benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the financial statements. The liability for compensated absences includes salary related benefits, where applicable.

Deferred Outflows 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 has no items that qualify for reporting in this category.

Deferred Inflows of Resources
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.

Leases as a Lessee
The Entity is a lessee for a variety of noncancelable leases. The Entity recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. The Entity recognizes lease liabilities in accordance with the capital asset policy discussed above.

At the commencement of a lease, the Entity initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgements related to leases include how the Entity determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Entity uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Entity generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Entity is reasonably certain to exercise.

The Entity monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term obligations on the statement of net position.

Net Position
The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- *Net investment in capital assets* consist of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

- *Restricted* net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

- *Unrestricted* net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the Entity will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Entity's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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 associated with Managed Care Specialty Services Program Contract. This contract provides for the use of Michigan Department of Health and Human Services (MDHHS) funding for the establishment of Internal Service Funds.

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.

Custodial credit risk
In the case of deposits, this is the risk that, in the event of a bank's failure, the Entity's deposits may not be returned to it. The Entity evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. The Entity bank balance was $32,859,893 and $32,609,893 of that amount was exposed to custodial credit risk because it was uninsured by FDIC.

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 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivable and payable shown on the fund financial statements as of September 30th, are as follows:

Description	Due from Other Funds	Due to Other Funds
Mental health operating	-	673,054
Medicaid risk reserve	673,054	-
Total	673,054	673,054

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system and 3) payments between funds are made.

NOTE 5 - DUE FROM OTHER AGENCIES

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

Description	Amount
Lenawee County PA2	153,892
Livingston County PA2	226,453
Monroe County PA2	168,564
Washtenaw County PA2	413,337
Other	93
Total	962,339

NOTE 6 - DUE FROM AFFILIATE PARTNERS

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

Description	Amount
Lenawee Community Mental Health Authority	6,974,176
Community Mental Health Services of Livingston County	7,572,498
Monroe Community Mental Health Authority	688,490
Washtenaw County Community Mental Health	8,938,263
Totals	24,173,427

NOTE 7 - DUE FROM MDHHS

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

Description	Amount
Due from MDHHS - PBIP/Withhold	2,053,505
Due from MDHHS - FY18 State Shared Risk	7,517,412
Due from MDHHS - FY19 State Shared Risk	3,479,703
Due from MDHHS - HRA 4th Quarter	1,273,262
Grants Receivable	1,570,606
Totals	15,894,488

NOTE 8 - 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
Right to use - building	-	435,400	-	-	435,400
Total capital assets being depreciated	78,000	435,400	-	-	513,400
Accumulated depreciation					
Computers and software	(78,000)	-	-	-	(78,000)
Right to use - building	-	(124,400)	-	-	(124,400)
Total accumulated depreciation	(78,000)	(124,400)	-	-	(202,400)
Capital assets being depreciated, net	-	311,000	-	-	311,000

NOTE 9 - DUE TO OTHER AGENCIES

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

Description	Amount
Hospital Rate Adjustment (HRA)	1,273,272
Total	1,273,272

NOTE 10 - DUE TO AFFILIATE PARTNERS

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

Description	Amount
Community Mental Health Services of Livingston County	3,164,312
Monroe Community Mental Health Authority	6,847,718
Washtenaw County Community Mental Health	14,092,245
Total	24,104,275

NOTE 11 - DUE TO MDHHS

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

Description	Amount
Q4 Local Match	235,126
FY 21 DCW Lapse	119,843
FY 22 MCAID/HMP Lapse	4,660,453
FY 22 CCBHC	401,024
OHH Recoupment	41,741
FY22 DCW Lapse	1,339,639
Total	6,797,826

NOTE 12 - UNEARNED REVENUE

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

Description	Amount
Unearned PBIP	1,922,717
Medicaid carryforward	8,527,939
Healthy Michigan carryforward	6,465,573
Unearned PA2	4,963,518
Total	21,879,747

NOTE 13 – LEASE LIABILITY

The Entity entered into a 4-year lease agreement as lessee for the use of the Boardwalk building. An initial lease liability was recorded in the amount of $435,400 during the current fiscal year. As of year-end, the value of the lease liability was $318,910. The Entity is required to make monthly principal and interest payments of $10,300. The lease has an interest rate of 2.59%. The value of the right-to-use asset as of the end of the current fiscal year was $435,400 and had accumulated amortization of $124,400. The future principal and interest lease payments as of year-end were as follows:

Fiscal Year Ended September 30,	Principal	Interest	Total
2023	122,390	6,826	129,216
2024	129,521	3,572	133,093
2025	66,999	531	67,530
Total	318,910	10,929	329,839

NOTE 14 - LONG-TERM LIABILITIES

Summary of Long-Term Debt
The changes in long-term debt during the fiscal year are as follows:

	Beginning Balance	Additions	(Deletions)	Ending Balance	Due within one year
Compensated absences	57,830	11,090	(8,675)	60,245	9,037
Lease liability	-	435,400	(116,490)	318,910	122,390
Total	57,830	446,490	(125,165)	379,155	131,427

NOTE 15 - NET INVESTMENT IN CAPITAL ASSETS

As of September 30th, the composition of net investment in capital assets was comprised of the following:

Net investment in capital assets	Amount
Capital assets not being depreciated	-
Capital assets being depreciated, net	311,000
Capital related long-term liabilities	(318,910)
Net investment in capital assets	(7,910)

NOTE 16 – 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 3.0% is available if the employee contributes up to an additional 3.0%. Maximum employer match is 6.0% with employee contribution of 6.0%.

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 $100,310. The outstanding liability to the

plan at year-end was $0.

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 3.0% is available if the employee contributes up to an additional 3.0%. Maximum employer match is 6.0% with employee contribution of 6.0%.

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 $113,381. The outstanding liability to the plan at year-end was $0.

NOTE 17 - 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 risk under the terms of its contract with the MDHHS.

NOTE 18 – 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 19 – ECONOMIC DEPENDENCE

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

NOTE 20 – TRANSFERS

The Mental Health Fund transferred $673,054 to the Medicaid Risk Reserve Fund during the year for the purpose of covering the risk of future overspending of the Medicaid Managed Care Specialty Services Program Contract.

NOTE 21 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended September 30, 2022, the Entity implemented the following new pronouncement: GASB Statement No. 87, *Leases*.

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. The objective of this Statement is to increase 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 the 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.

NOTE 22 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 96, *Subscription-based Information Technology Arrangements,* was issued by the GASB in May 2020 and will be effective for the Entity's fiscal year ending September 30, 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended.

GASB Statement No. 101, *Compensated Absences*, was issued by the GASB in June 2022 and will be effective for the Entity's fiscal year September 30, 2025. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements.

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, 2022, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements, and have issued our report thereon dated April 27, 2023.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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.
Certified Public Accountants

April 27, 2023

Communication with Those Charged with Governance at the Conclusion of the Audit

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

We have audited 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) for the year ended September 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you during planning. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Entity are described in the notes to the financial statements. The Entity changed accounting policies related to leases by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 87 Leases. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Note 21 - Change In Accounting Principle. We noted no transactions entered into by the Entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Entity's financial statements were:

> Management's estimate of the payout of employee compensated absences is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's allocation of current and noncurrent compensated absences is based on an estimate of the percentage of employee's use of compensated absences.
>
> Management's estimated lives of capital assets are based on the expected life of the asset. We evaluated the key factors and assumptions used to develop the estimated lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
>
> Management's estimated incremental borrowing rate used to discount future lease payments under GASB 87 is based on the entity's current borrowing rate. We evaluated the key factors and assumptions used to develop the estimated intrinsic borrowing rate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters
We applied certain limited procedures to management's discussion and analysis which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use
This information is intended solely for the information and use of the Board and management of the Entity and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Roslund, Prestage & Company, P.C.

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

Roslund Prestage & Company
Certified Public Accountants

Community Mental Health Partnership of Southeast Michigan
Financial Statements
September 30, 2022