

**Community Mental Health Partnership  
of Southeast Michigan**

**Financial Statements**  
September 30, 2023



Community Mental Health Partnership of Southeast Michigan  
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September 30, 2023

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## Independent Auditor's Report

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

### Report on the 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 PIHP), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the PIHP'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 PIHP, as of September 30, 2023, 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 PIHP 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.

#### **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 PIHP'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 PIHP'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 PIHP'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 March 27, 2024, on our consideration of the PIHP'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 PIHP'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 PIHP's internal control over financial reporting and compliance.

Sincerely,



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

March 27, 2024

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**



Community Mental Health Partnership of Southeast Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FY 2023

**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 coverage of mental health, developmental disability and substance use disorder treatment services for those eligible within the:

1. Medicaid State Plan
2. 1915(c) Waiver: Children's Waiver Programs, Habilitation Supports Waiver, Serious Emotional Disturbance Waiver
3. 1915(i) Waiver
4. 1115 Behavioral Health Demonstration Waiver
5. 1115 Healthy Michigan Plan
6. Substance Use Disorder Service Funding (Medicaid, HMP, Block Grant, PA2)
7. 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.

Community Mental Health Partnership of Southeast Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FY 2023

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 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 CMHSPs should expenses increase unexpectedly, 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.

Community Mental Health Partnership of Southeast Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FY 2023

	FY 2023	FY 2022
<b>Assets</b>		
Cash and Cash Equivalents	36,722,307	32,763,522
Due from Other Funds	16,508,750	
Receivables	52,376,158	41,703,396
Prepaid Expenses	53,680	100,031
Capital Assets	253,416	311,000
<b>Total Assets</b>	<b>105,914,311</b>	<b>74,877,949</b>
<b>Liabilities</b>		
Accounts Payable and Accrued Liab	57,130,807	34,964,622
Unearned Revenue	13,404,792	21,879,747
Compensated Balances	10,967	60,245
Lease Liability	196,519	318,910
<b>Total Liabilities</b>	<b>70,743,085</b>	<b>57,223,524</b>
<b>Net Position</b>		
Net Investment in Capital Assets	56,897	(7,910)
Restricted for Risk Management	17,349,532	15,701,187
Unrestricted	17,764,797	1,961,148
<b>Total Net Position</b>	<b>35,171,226</b>	<b>17,654,425</b>

**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 Treatment Services represent 9% of the annual expenses of CMHPSM. Administrative Expense represents less than 1% of annual expenses.



Community Mental Health Partnership of Southeast Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FY 2023

	<b>FY 2023</b>
<b>Revenues</b>	
Medicaid Capitation	185,999,103
Healthy Michigan Plan	27,324,767
Autism	15,871,863
Behavioral Health Home	772,738
Incentives	308,529
CCBHC	9,706,435
Opioid Health Homes	742,285
Substance Use	15,238,368
PA2	1,431,123
State and Federal Grants	9,711,234
Affiliation Charges	92,691
Local Match Drawdown	621,860
Investment Income	588,497
<b>Total Revenues</b>	<b>268,409,493</b>
<b>Expenditures</b>	
Funding for Lenawee CMHSP	23,144,141
Funding for Livingston CMHSP	41,486,074
Funding for Monroe CMHSP	46,996,097
Funding for Washtenaw CMHSP	106,027,565
SUD Expenditures	24,070,380
Hospital Rate Adjuster Payments	5,667,200
IPATax	2,099,550
Local Match Drawdown	621,860
Administrative Expense	2,428,140
<b>Total Expenditures</b>	<b>252,541,007</b>
<b>Surplus/(Deficit)</b>	<b>15,868,486</b>

**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

Community Mental Health Partnership of Southeast Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FY 2023

the expenses of delivering a wide variety of behavioral health services within the CMHPSM region can be difficult. The CMHPSM region is a long-established partnership that has consistently managed its expenditures within the revenue allocated outside of the period comprised of FY2017-FY2019. While the deficit spending of FY2017, FY2018 and FY2019 continues to impact the financial position of the CMHPSM, the strong financial showing from FY2020 through FY2023 and deficit resolution discussions with MDHHS reflect positively on our financial future.

**Revenue**

The CMHPSM revenue budget for each fiscal year is developed several months prior to Michigan Department of Health and Human Services (MDHHS) finalization 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 actuarially sound on a statewide basis. FY2023 experienced a continued elevation of individuals eligible for Healthy Michigan or TANF coverage through May 2023. With the end of continuous enrollment at the expiration of the COVID-19 public health emergency, the eligible individual population began decreasing in the last quarter of FY2023. This trend will continue through the first two quarters of FY2024 until it is projected that eligible individuals will level off near pre-pandemic levels.

**Expenses**

The CMHPSM region has experienced a decrease in our service expenditure levels regionally during FY2020 and FY2021 due to the COVID-19 pandemic. That trend concluded and we have experienced an upward trend in service levels and increased reimbursement rates in both FY2022 and FY2023. The CMHPSM continues to monitor expenses within our region, specifically related to inflationary and staffing level pressures within our regional contracted provider network.

**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 financial projections for the future difficult.

Community Mental Health Partnership of Southeast Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FY 2023

The financial status of the CMHPSM in FY2023 is positive and includes a fully funded ISF and some carryforward funds for FY2024. Current and future financial status projections are more closely aligned with our region's positive fiscal history, rather than the outlier period of FY2017 through FY2019. In October 2023, MDHHS indicated that a deficit repayment plan could be effectuated utilizing FY2022 Internal Service Funds to repay the outstanding deficits from FY2018 and FY2019. MDHHS the CMHPSM would be able to eliminate the deficit in the ISF, With full implementation of the deficit repayment and MDHHS repayment of the shared risk corridor during FY2024 it is expected that the CMHPSM would repay the CMHSPs for both the PIHP and MDHHS share of the risk corridor deficit and be able to move forward with a more positive, stable 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, 2023

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
<b>Current assets</b>			
Cash and cash equivalents	\$ 35,881,525	\$ 840,782	\$ 36,722,307
Accounts receivable	40	-	40
Due from other funds	-	16,508,750	16,508,750
Due from other agencies	436,299	-	436,299
Due from affiliate partners	33,841,098	-	33,841,098
Due from MDHHS	18,098,721	-	18,098,721
Prepaid expenses	53,680	-	53,680
Total current assets	<u>88,311,363</u>	<u>17,349,532</u>	<u>105,660,895</u>
<b>Noncurrent assets</b>			
Capital assets being depreciated, net	253,416	-	253,416
Total noncurrent assets	<u>253,416</u>	<u>-</u>	<u>253,416</u>
<b>Total assets</b>	<u>88,564,779</u>	<u>17,349,532</u>	<u>105,914,311</u>
<b>Current liabilities</b>			
Accounts payable	1,653,628	-	1,653,628
Accrued payroll and benefits	97,270	-	97,270
Due to other funds	16,508,750	-	16,508,750
Due to other agencies	1,465,772	-	1,465,772
Due to affiliate partners	31,109,178	-	31,109,178
Due to MDHHS	6,234,061	-	6,234,061
Unearned revenue	13,404,792	-	13,404,792
Compensated absences, due within one year	10,967	-	10,967
Direct borrowing, due within one year	129,521	-	129,521
Total current liabilities	<u>70,613,939</u>	<u>-</u>	<u>70,613,939</u>
<b>Noncurrent liabilities</b>			
Compensated absences, due beyond one year	62,148	-	62,148
Direct borrowing, due beyond one year	66,998	-	66,998
Total noncurrent liability	<u>129,146</u>	<u>-</u>	<u>129,146</u>
<b>Total liabilities</b>	<u>70,743,085</u>	<u>-</u>	<u>70,743,085</u>
<b>Net position</b>			
Net investment in capital assets	56,897	-	56,897
Restricted for risk management	-	17,349,532	17,349,532
Unrestricted	17,764,797	-	17,764,797
Total net position	<u>\$ 17,821,694</u>	<u>\$ 17,349,532</u>	<u>\$ 35,171,226</u>

Community Mental Health Partnership of Southeast Michigan  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended September 30, 2023

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
<b>Operating revenues</b>			
Medicaid capitation	\$ 187,622,060	\$ -	\$ 187,622,060
Healthy Michigan	27,324,737	-	27,324,737
Autism	15,871,863	-	15,871,863
Behavioral health home	772,738	-	772,738
CCBHC	9,706,435	-	9,706,435
Incentives	308,529	-	308,529
Opioid health home	742,285	-	742,285
Substance use	15,238,368	-	15,238,368
PA2 revenues	1,431,123	-	1,431,123
State and federal grants	9,711,234	-	9,711,234
Affiliation charges	92,691	-	92,691
Contributions - local match drawdown	621,860	-	621,860
Total operating revenues	<u>269,443,923</u>	-	<u>269,443,923</u>
<b>Operating expenses</b>			
Funding for affiliate partners			
Lenawee Community Mental Health Authority	23,144,141	-	23,144,141
Community Mental Health Services of Livingston County	41,486,074	-	41,486,074
Monroe Community Mental Health Authority	46,996,097	-	46,996,097
Washtenaw County Community Mental Health	106,027,565	-	106,027,565
Total funding for CMHSP partners	<u>217,653,877</u>	-	<u>217,653,877</u>
Substance use disorder expense			
Contracted services - Behavioral Health Home	94,257	-	94,257
Contracted services - Medicaid and Healthy Michigan	11,760,919	-	11,760,919
Contracted services - PA2	1,431,123	-	1,431,123
Contracted services - Prevention	1,183,310	-	1,183,310
Contracted services - State agreement	8,635,402	-	8,635,402
Other grant funded	244,961	-	244,961
SUD administrative	720,408	-	720,408
Total substance use disorder expense	<u>24,070,380</u>	-	<u>24,070,380</u>
Other contractual obligations			
Hospital Rate Adjuster	5,667,200	-	5,667,200
Use and IPA Tax	2,099,550	-	2,099,550
Local match	621,860	-	621,860
Total other contractual obligations	<u>8,388,610</u>	-	<u>8,388,610</u>
Administrative expense			
Board per diem	24,395	-	24,395
Capital outlay - under \$5,000	32,271	-	32,271
Conferences	12,341	-	12,341
Depreciation	124,400	-	124,400
Dues and memberships	11,793	-	11,793
Insurance	13,302	-	13,302
Legal and accounting	37,788	-	37,788
Professional contracts	600,220	-	600,220
Salaries and fringes	1,470,635	-	1,470,635
Supplies	31,967	-	31,967

Community Mental Health Partnership of Southeast Michigan  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended September 30, 2023

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
Travel and training	\$ 45,647	\$ -	\$ 45,647
Utilities	23,381	-	23,381
Total administrative expense	<u>2,428,140</u>	-	<u>2,428,140</u>
Total operating expenses	<u>252,541,007</u>	-	<u>252,541,007</u>
Operating income (loss)	16,902,916	-	16,902,916
<b>Nonoperating revenues (expenses)</b>			
Investment income	595,323	25,388	620,711
Interest expense	(6,826)	-	(6,826)
Total nonoperating revenues (expenses)	<u>588,497</u>	<u>25,388</u>	<u>613,885</u>
<b>Transfer in (out)</b>	<u>(1,622,957)</u>	<u>1,622,957</u>	<u>-</u>
<b>Change in net position</b>	15,868,456	1,648,345	17,516,801
<b>Net position, beginning of year</b>	<u>1,953,238</u>	<u>15,701,187</u>	<u>17,654,425</u>
<b>Net position, end of year</b>	<u>\$ 17,821,694</u>	<u>\$ 17,349,532</u>	<u>\$ 35,171,226</u>

Community Mental Health Partnership of Southeast Michigan  
Statement of Cash Flows  
For the Year Ended September 30, 2023

	Mental Health Operating	Medicaid Risk Reserve	Total Proprietary Funds
<b>Cash flows from operating activities</b>			
Receipts from the State and other governments	\$ 258,919,558	\$ -	\$ 258,919,558
Payments to employees	(1,360,495)	-	(1,360,495)
Payments to affiliates and other governments	(228,705,255)	-	(228,705,255)
Payments to suppliers and providers	(25,319,701)	-	(25,319,701)
Net cash provided by operating activities	3,534,107	-	3,534,107
<b>Cash flows from capital and related financing activities</b>			
Acquisition of capital assets	(66,816)	-	(66,816)
Payment of direct borrowing	(122,391)	-	(122,391)
Payment of interest	(6,826)	-	(6,826)
Net cash provided by capital and related financing activities	(196,033)	-	(196,033)
<b>Cash flows from noncapital financing activities</b>			
Transfers from other funds	14,212,739	(14,212,739)	-
Net cash provided by noncapital financing activities	14,212,739	(14,212,739)	-
<b>Cash flows from investment activities</b>			
Investment income	595,323	25,388	620,711
Net cash provided by investment activities	595,323	25,388	620,711
<b>Net increase in cash and cash equivalents</b>	18,146,136	(14,187,351)	3,958,785
<b>Cash and cash equivalents, beginning of year</b>	17,735,389	15,028,133	32,763,522
<b>Cash and cash equivalents, end of year</b>	<u>\$ 35,881,525</u>	<u>\$ 840,782</u>	<u>\$ 36,722,307</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 16,902,916	\$ -	\$ 16,902,916
Depreciation expense	124,400	-	124,400
Changes in assets and liabilities:			
Accounts receivable	48	-	48
Due from other agencies	526,040	-	526,040
Due from affiliate partners	(9,667,671)	-	(9,667,671)
Due from MDHHS	(2,204,233)	-	(2,204,233)
Prepaid expenses	46,351	-	46,351
Accounts payable	(462,567)	-	(462,567)
Accrued payroll and benefits	97,270	-	97,270
Due to other agencies	192,500	-	192,500
Due to affiliate partners	7,004,903	-	7,004,903
Due to MDHHS	(563,765)	-	(563,765)
Unearned revenue	(8,474,955)	-	(8,474,955)
Compensated absences	12,870	-	12,870
Net cash provided by operating activities	<u>\$ 3,534,107</u>	<u>\$ -</u>	<u>\$ 3,534,107</u>



**NOTES TO THE  
FINANCIAL STATEMENTS**



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Community Mental Health Partnership of Southeast Michigan (the PIHP) 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 PIHP.

**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 PIHP 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 PIHP are charges related to serving its customers (including primarily “per member per month” capitation and state and county appropriations). Operating expenses for the PIHP 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 PIHP 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 PIHP 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 PIHP accounts for its general operations.

In addition, the PIHP 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 PIHP 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 PIHP'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 PIHP 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 PIHP 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 (except for intangible right-to-use lease assets, the measurement of which is discussed in the leases policy below). 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 PIHP are amortized using the straight-line method over the shorter of the lease period or the estimated useful lives. The other tangible and intangible property, plant, equipment, and the right to use assets of the CMHSP are depreciated/amortized using the straight-line method over the following estimated useful lives:

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

The PIHP 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 PIHP 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 PIHP 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 PIHP has legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

### **Compensated Absences**

The PIHP’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 PIHP 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 PIHP has no items that qualify for reporting in this category.

### **Leases as a Lessee**

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

At the commencement of a lease, the PIHP 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 PIHP determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The PIHP uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the PIHP 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 PIHP is reasonably certain to exercise.

The PIHP 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 PIHP 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 PIHP'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 PIHP 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 PIHP serves as the Pre-Paid Inpatient Health Plan for the area that includes Lenawee, Livingston, Monroe and Washtenaw Counties. The PIHP 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 PIHP's deposits may not be returned to it. The PIHP 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 PIHP bank balance was \$4,573,380 and \$4,323,380 of that amount was exposed to custodial credit risk because it was uninsured by FDIC.

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**NOTE 3 – ACCOUNTS RECEIVABLE**

The PIHP 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 30<sup>th</sup>, are as follows:

Description	Due from Other Funds	Due to Other Funds
Mental health operating	-	16,508,750
Medicaid risk reserve	16,508,750	-
Total	16,508,750	16,508,750

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 30<sup>th</sup> consists of the following:

Description	Amount
Lenawee County PA2	35,452
Livingston County PA2	107,484
Monroe County PA2	80,264
Washtenaw County PA2	213,078
Other	21
Total	436,299

**NOTE 6 - DUE FROM AFFILIATE PARTNERS**

Due from other affiliate partners as of September 30<sup>th</sup> consists of the following:

Description	Amount
Lenawee Community Mental Health Authority	7,786,456
Community Mental Health Services of Livingston County	8,766,003
Monroe Community Mental Health Authority	1,287,300
Washtenaw County Community Mental Health	16,001,339
Totals	33,841,098

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**NOTE 7 - DUE FROM MDHHS**

Due from MDHHS as of September 30<sup>th</sup> consists of the following:

Description	Amount
Due from MDHHS - PBIP/Withhold	2,260,510
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	1,465,772
Grants Receivable	3,375,324
Totals	18,098,721

**NOTE 8 - CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

Description	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated/amortized					
Construction in process	-	66,816	-	-	66,816
Total capital assets not being depreciated/amortized	-	66,816	-	-	66,816
Capital assets being depreciated/amortized					
Computers and software	78,000	-	-	-	78,000
Right to use - building	435,400	-	-	-	435,400
Total capital assets being depreciated/amortized	513,400	-	-	-	513,400
Accumulated depreciation/amortization					
Computers and software	(78,000)	-	-	-	(78,000)
Right to use - building	(124,400)	(124,400)	-	-	(248,800)
Total accumulated depreciation/amortization	(202,400)	(124,400)	-	-	(326,800)
Capital assets being depreciated/amortized, net	311,000	(124,400)	-	-	186,600
Net investment in capital assets	311,000	(57,584)	-	-	253,416

**NOTE 9 - DUE TO OTHER AGENCIES**

Due to other agencies as of September 30<sup>th</sup> consists of the following:

Description	Amount
Hospital Rate Adjustment (HRA)	1,465,772

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**NOTE 10 - DUE TO AFFILIATE PARTNERS**

Due to Affiliate Partners as of September 30<sup>th</sup> consists of the following:

Description	Amount
Lenawee Community Mental Health Authority	107,250
Community Mental Health Services of Livingston County	3,853,816
Monroe Community Mental Health Authority	10,339,564
Washtenaw County Community Mental Health	16,808,548
Total	31,109,178

**NOTE 11 - DUE TO MDHHS**

Due to MDHHS as of September 30<sup>th</sup> consists of the following:

Description	Amount
Q4 Local Match	235,126
FY 21 DCW Lapse	119,843
FY22 MCAID/HMP Lapse	2,713,048
FY23 BHH Recoup	5,252
OHH Recoupment	289,748
FY22 DCW Lapse	1,458,097
FY23 CCBHC Lapse	1,412,947
Total	6,234,061

**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	2,260,510
Medicaid carryforward	4,778,468
Healthy Michigan carryforward	2,709,830
Unearned PA2	3,655,984
Total	13,404,792



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**NOTE 13 – LONG-TERM LIABILITIES**

Direct Borrowings

Description	Original Borrowing	Interest Rates	Final Maturity	Outstanding at Year-end
Boardwalk lease	435,400	2.59%	2025	196,519

The CMHSP's outstanding loans from direct borrowings and direct placements related to mental health operations contain provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

**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	60,245	21,907	(9,037)	73,115	10,967
Direct borrowing	318,910	-	(122,391)	196,519	129,521
<b>Total</b>	<b>379,155</b>	<b>21,907</b>	<b>(131,428)</b>	<b>269,634</b>	<b>140,488</b>

The future principal and interest lease payments as of year-end were as follows:

Year Ended September 30	Direct Borrowings	
	Principal	Interest
2024	129,521	3,572
2025	66,998	531
<b>Total long-term debt</b>	<b>196,519</b>	<b>4,103</b>

**NOTE 14 - NET INVESTMENT IN CAPITAL ASSETS**

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

Net investment in capital assets	Amount
Capital assets being depreciated, net	253,416
Capital related long-term liabilities	(196,519)
<b>Net investment in capital assets</b>	<b>56,897</b>

**NOTE 15 – RETIREMENT PLANS**

**Defined Contribution Retirement Plan – 401(a)**

Plan Description

The PIHP 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 PIHP's financial statements.

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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 PIHP 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 30<sup>th</sup>, employer contributions amounted to \$117,251. The outstanding liability to the plan at year-end was \$0.

**Deferred Compensation Retirement Plan – 457**

Plan Description

The PIHP 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 PIHP'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 PIHP 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 30<sup>th</sup>, contributions by employees amounted to \$134,445. The outstanding liability to the plan at year-end was \$0.

#### **NOTE 16 - RISK MANAGEMENT**

##### Commercial Insurance

The PIHP 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 PIHP 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 PIHP covers the costs up to 105% of the annual Medicaid and Healthy Michigan contract. The PIHP 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 PIHP 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 17 – CONTINGENT LIABILITIES**

Under the terms of various federal and state grants and regulatory requirements, the PIHP 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 PIHP expects such amounts, if any, to be immaterial.

#### **NOTE 18 – ECONOMIC DEPENDENCE**

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

#### **NOTE 19 – TRANSFERS**

The Mental Health Fund transferred \$1,622,957 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 20 - UPCOMING ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 100, *Accounting Changes and Error Corrections*, was issued by the GASB in June 2022 and will be effective for the PIHP's fiscal year September 30, 2024. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement prescribes the accounting and financial reporting for 1) each type of accounting change and 2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period.

GASB Statement No. 101, *Compensated Absences*, was issued by the GASB in June 2022 and will be effective for the PIHP'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

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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 PIHP), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the PIHP's basic financial statements, and have issued our report thereon dated March 27, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the PIHP'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 PIHP's internal control. Accordingly, we do not express an opinion on the effectiveness of the PIHP'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 PIHP'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 PIHP'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 PIHP'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 PIHP'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

March 27, 2024



## 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 PIHP) for the year ended September 30, 2023. 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 PIHP are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the PIHP 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 PIHP'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 PIHP'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 PIHP'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 PIHP'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 PIHP and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,



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





**RPC**  
Roslund Prestage & Company  
CERTIFIED PUBLIC ACCOUNTANTS

**Community Mental Health Partnership of Southeast Michigan  
Financial Statements  
September 30, 2023**