

**Community Mental Health Partnership
of Southeast Michigan**

Financial Statements
September 30, 2014



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

Community Mental Health Partnership of Southeast Michigan
Ann Arbor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of Community Mental Health Partnership of Southeast Michigan (the Entity) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Entity, as of September 30, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 4 to the financial statements, Community Mental Health Partnership of Southeast Michigan early implemented GASB Statement No. 69, Government Combinations and Disposals of Government Operations in fiscal year 2014. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2015, on our consideration of the Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.

Roslund, Prestage & Company, P.C.

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

April 9, 2015

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



Community Mental Health Partnership Of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FY 2014

Responsibility

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

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

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

Mission

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

Financial Overview

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

Within the 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 two Substance Abuse Coordinating Agencies.

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

Community Mental Health Partnership Of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FY 2014

Fund Financial Statements

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

Notes to the Financial Statements

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

Statement of Net Position

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

	<u>2014</u>
Assets	
Cash and Cash Equivalents – Unrestricted	\$ 3,842,320
Cash and Cash Equivalents – Restricted	4,375,944
Receivables	<u>10,522,049</u>
Total Assets	\$18,740,313
Liabilities	
Accounts Payable and Accrued Liabilities	\$ 7,387,395
Unearned Revenue	<u>2,561,254</u>
Total Liabilities	\$ 9,948,649
Net Position	
Restricted for Risk Management	<u>8,791,664</u>
Total Net Position	<u>\$ 8,791,664</u>

Statement of Activities Including Change in Net Position

The statement of activities lists the major areas of funding received by the CMHPSM. Funding provided by the Michigan Department of Community Health (MDCH) represents 99% of the total funding received by the CMHPSM. The balance are Local Match Drawdown and Local Match for Health Homes for WCHO that are collected by the CMHPSM from the CMHSPs and passed on to MDCH as required by the CMHPSM contract with MDCH.

Community Mental Health Partnership Of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
 FY 2014

During the fiscal year ended September 30, 2014, the net position of CMHPSM remained at \$0. As no Local Funding is received by CMHPSM that is not restricted and required to be paid to MDCH, it is not expected that there will ever be a substantial Net Position.

	<u>2014</u>
Revenues	
Medicaid Capitation	\$91,915,392
Healthy Michigan Plan	5,260,122
Autism	657,272
Health Home for WCHO	22,911
Adult Benefit Waiver	606,897
Contributions – Local Match Drawdown from CMHSPs	1,183,335
10% Local Match for Health Homes from WCHO	<u>2,291</u>
Total Revenues	\$99,648,220
Expenditures	
Funding for Lenawee CMHSP	\$10,448,057
Funding for Livingston CMHSP	15,780,365
Funding for Monroe CMHSP	18,579,906
Funding for WCHO CMHSP	50,910,711
Washtenaw/Lenawee/Livingston SUD CA	1,430,112
Southeast Michigan Coordinating Agency	453,002
Hospital Rate Adjuster	1,531,296
Use and HICA Tax	4,854,708
Local Match Drawdown	1,183,335
10% Local Match for Health Home for WCHO	2,291
Administrative Expense	<u>660,261</u>
Total Expenditures	<u>\$105,834,044</u>
Excess of Expenditures Over Revenue Before Special Item	\$ (6,185,824)
<u>Special Item</u>	
Medicaid Carryforward Transfer From WCHO	<u>6,185,824</u>
Excess of Expenditures Over Revenue After Special Item	-
Net Position, Beginning of Year	<u>-</u>
Net Position, End of Year	<u>\$ -</u>

Community Mental Health Partnership Of Southeast Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
FY 2014

Factors Impacting The Future

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

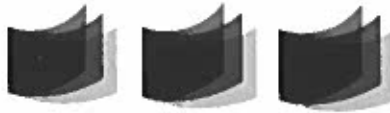
Even with the State's commitment to provide funding levels prior to the time when Budgets are required to be finalized, the notification does not represent a firm commitment from the State to pay the PIHPs that amount (payments can fluctuate due to changing numbers of Eligible Consumers, the State's criteria for Consumer eligibility and if the State changes the rates that are paid for eligible Consumers). Such uncertainty in payments from the State increases the complexity of managing budgeted expenditures. An additional restriction that creates further challenges is the inability of the CMHPSM to interchange funds among consumer benefit groups.

Uncertainty in funding from the State makes it imperative that the local Community Mental Health Service Programs (CMHSPs) develop accurate budgets for the Direct and Contractual services that they provide to eligible Consumers in their County of operation. While the CMHSPs have little impact on State provided funding, they do need to understand if there are changes in the number of Consumers that they serve, the severity of the Consumers or costs to provide services to their Consumers. Adverse changes to the Budget assumptions for the Consumers that will be served must be identified quickly so that plans can be developed and implemented to offset those issues that drive costs above the budgeted levels. As a last resort if those cost increases cannot be offset, or if revenues are not realized at Budget levels, the CMHPSM can utilize the Internal Service Fund (the primary Risk Management Strategy to cover these conditions) to the extent necessary or available to cover Budget deficit situations.

Requests for Information

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

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**



Community Mental Health Partnership of Southeast Michigan
Statement of Net Position - Governmental Activities
September 30, 2014

Assets

Cash and cash equivalents - unrestricted	\$ 3,842,320
Due from affiliate partners	8,526,080
Due from MDCH	1,853,018
Due from other agencies	142,951
Cash and cash equivalents - restricted	<u>4,375,944</u>
 Total assets	 18,740,313

Liabilities

Accounts payable	1,900,912
Accrued liabilities	172
Due to affiliate partners	5,045,545
Due to MDCH	440,766
Unearned revenue	<u>2,561,254</u>
 Total liabilities	 9,948,649

Net position

Restricted for risk management	<u>8,791,664</u>
 Total net position	 <u><u>\$ 8,791,664</u></u>

Community Mental Health Partnership of Southeast Michigan
Statement of Activities - Governmental Activities
For the Year Ending September 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions				
Governmental activities				
Health & welfare - mental health	\$ 105,834,044	\$ -	\$ 99,648,220	\$ (6,185,824)
Special items				
Medicaid ISF transfer from Washtenaw Community Health Organization				8,791,664
Medicaid Carryforward transfer from Washtenaw Community Health Organization				6,185,824
				<u>14,977,488</u>
Change in net position				8,791,664
Net position, beginning of year				<u>-</u>
Net position, end of year				<u>\$ 8,791,664</u>

FUND FINANCIAL STATEMENTS



Community Mental Health Partnership of Southeast Michigan
Governmental Funds Balance Sheet - General Fund
September 30, 2014

Assets

Cash and cash equivalents	\$ 3,842,320
Due from affiliate partners	4,110,360
Due from MDCH	1,853,018
Due from other agencies	<u>142,951</u>

Total assets \$ 9,948,649

Liabilities

Accounts payable	\$ 1,900,912
Accrued liabilities	172
Due to affiliate partners	5,045,545
Due to MDCH	440,766
Unearned revenue	<u>2,561,254</u>

Total liabilities 9,948,649

Fund balance

Unassigned -

Total liabilities and fund balances \$ 9,948,649

Community Mental Health Partnership of Southeast Michigan
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Position of Governmental Activities on the Statement of Net Position
September 30, 2014

Total fund balance - governmental funds	\$ -
Amounts reported for governmental activities in the statement of net position are different because:	
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	
Add: Net position of governmental activities accounted for in the internal service fund	<u>8,791,664</u>
Net position of governmental activities	<u><u>\$ 8,791,664</u></u>

Community Mental Health Partnership of Southeast Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund
Health & Welfare - Mental Health
For the Year Ending September 30, 2014

Revenues

State funding	
Medicaid capitation	\$ 91,915,392
Healthy Michigan	5,260,122
Autism	657,272
Health home	22,911
Adult benefit waiver	606,897
Total State funding	98,462,594
Contributions - Local match drawdown	1,183,335
Local health homes	2,291
	99,648,220

Expenditures

Funding for Community Mental Health Services Program (CMHSP) partners	
Lenawee Community Mental Health Authority	10,448,057
Community Mental Health Services of Livingston County	15,780,365
Monroe Community Mental Health Authority	18,579,906
Washtenaw Community Health Organization	50,910,711
Total funding for CMHSP partners	95,719,039
Funding for Substance Use Disorder (SUD) services	
WCHO/Lenawee/Livingston Coordinating Agency	1,430,112
Southeast Michigan Coordinating Agency	453,002
Total funding for SUD services	1,883,114
Other contractual obligations	
Hospital Rate Adjuster	1,531,296
Use and HICA Tax	4,854,708
Local match expense	1,183,335
Local health home expense	2,291
Total other contractual obligations	7,571,630
CMHPSM Administrative expense	
Administrative contracts	655,698
All other costs	4,563
Total administrative expense	660,261
Total expenditures	105,834,044
Excess of expenditures over revenues before special item	(6,185,824)
Special item	
Medicaid carryforward transfer from Washtenaw Community Health Organization	6,185,824
Excess of expenditures over revenues after special item	-
Fund balance, beginning of year	-
Fund balance, end of year	\$ -

Community Mental Health Partnership of Southeast Michigan
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
September 30, 2014

Net change in fund balances - total governmental funds	\$ -
Amounts reported for governmental activities in the statement of activities are different because:	
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) is reported with governmental activities.	
Add: Special item - Medicaid ISF transfer from Washtenaw Community Health Organizatio	<u>8,791,664</u>
Change in net position of governmental activities	<u>\$ 8,791,664</u>

Community Mental Health Partnership of Southeast Michigan
Statement of Net Position
Proprietary Funds - Internal Service Fund
September 30, 2014

Assets

Cash and cash equivalents - restricted	\$ 4,375,944
Due from other government units	<u>4,415,720</u>
Total assets	<u>8,791,664</u>

Net position

Restricted for risk management	<u><u>\$ 8,791,664</u></u>
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Community Mental Health Partnership of Southeast Michigan
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds - Internal Service Fund
For the Year Ending September 30, 2014

Special items	
Medicaid ISF transfer from Washtenaw Community Health Organization	<u>8,791,664</u>
Change in net position	8,791,664
Net position, beginning of year	<u>-</u>
Net position, end of year	<u><u>\$ 8,791,664</u></u>

Community Mental Health Partnership of Southeast Michigan
Statement of Cash Flows
Proprietary Funds - Internal Service Fund
For the Year Ending September 30, 2014

Cash flows from special items	
Cash received from Washtenaw Community Health Organization for Medicaid ISF transfer	4,375,944
Net increase (decrease) in cash and cash equivalents	<u>4,375,944</u>
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,375,944</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Community Mental Health Partnership of Southeast Michigan (the Entity) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Entity.

Reporting Entity

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

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

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Entity's reporting entity, and which organizations are legally separate, component units of the Entity. Based on the application of the criteria, the Entity does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Entity.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net position is restricted when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the Entity's policy to use restricted resources first, and then unrestricted resources as they are needed.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements (statement of net position and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the

Community Mental Health Partnership of Southeast Michigan
Notes to the Financial Statements
September 30, 2014

current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Entity generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Entity reports the following major governmental funds:

Governmental Funds

General Fund – This fund is the Entity's primary operating fund. It accounts for all financial resources of the Entity, except those required to be accounted for in other funds.

Proprietary Funds

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgetary Data

The Entity adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

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.

Receivables

Receivables consist primarily of amounts due from the CMHSP Participants and due from MDCH.

Inventories

The Entity does not recognize as an asset inventories of supplies. 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.

Unearned Revenue

Unearned revenues arise when resources are received by the Entity before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Entity has a legal claim to the resources, the liability for unearned revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements 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.

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

Net Position and Fund Balances

Restricted net position shown in the government-wide financial statements will generally be different from amounts reported as reserved/assigned fund balances in the governmental fund financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances

The Entity has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The Entity would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.
- *Committed fund balance* - amounts constrained to specific purposes by the Entity itself, using its highest level of decision-making Entity (Entity's Board). To be reported as committed, amounts cannot be used for any other purpose unless the Entity takes the same highest level action to remove or change the constraint.
- *Assigned fund balance* - amounts the Entity intends to use for a specific purpose. Intent can be expressed by the Entity's Board or by an official or body to which the Board delegates the Entity.
- *Unassigned fund balance* - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Net Position - Restrictions

Net position in the government-wide financial statements are reported as restricted when constraints placed on net position use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

MDCH Revenue

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end. The Entity does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the current year, the Entity incurred expenditures in excess of the amounts appropriated as shown on the schedule in the back of this report.

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

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

Cash and Cash Equivalents	Amount
Checking, Savings, & Money Market Accounts – unrestricted	\$ 3,842,320
Checking, Savings, & Money Market Accounts – restricted	4,375,944
Totals	\$ 8,218,264

Restricted Cash and Investments

- Cash and investments have been restricted in the Internal Service Fund in the amount of \$4,375,944 for the expected future risk corridor requirements of the MDCH contract.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Entity's deposits might not be recovered. The Entity does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$7,968,264 of the Entity's \$8,218,264 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Entity believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Entity evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

State statutes authorize the Entity to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments.

The Entity's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

Credit Risk – Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Entity's investment policy limits investments to be made with prudent

Community Mental Health Partnership of Southeast Michigan
Notes to the Financial Statements
September 30, 2014

judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Entity places no limit on the amount it may invest in any one issuer. At September 30th, the Entity did not have concentrations in securities of any one issuer greater than 5% of investment fair value.

Custodial Credit Risk – Investments

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

Interest Rate Risk – Investments

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

Due from Affiliate Partners

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

Due From	Amount
Lenawee Community Mental Health Authority – Cost Settlement	\$ 2,273,760
Community Mental Health Services of Livingston County – Cost Settlement	813,520
Monroe Community Mental Health Authority – Cost Settlement	189,476
Washtenaw Community Health Organization – Cost Settlement	833,604
Washtenaw Community Health Organization – ISF Transfer	4,415,720
Total	\$ 8,526,080

Due from MDCH

Due from MDCH as of September 30th, consists of the following:

Due From	Amount
Due from MDCH – HSW	\$ 301,570
Due from MDCH – DHS Incentive	155,699
Due from MDCH – Medicaid Autism	486,808
Due from MDCH – MiChild Autism	17,848
Due from MDCH – Healthy Michigan	769,617
Due from MDCH – PIHP Withhold	120,828
Due from MDCH – Health Home	648
Total	\$ 1,853,018

Due to Affiliate Partners

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

Due to	Amount
Lenawee Community Mental Health Authority	\$ 5,738
Community Mental Health Services of Livingston County	235,216
Monroe Community Mental Health Authority	634,378
Washtenaw Community Health Organization	4,121,046

Community Mental Health Partnership of Southeast Michigan
Notes to the Financial Statements
September 30, 2014

Southeast Michigan Community Alliance	49,167
Totals	\$ 5,045,545

Accounts Payable

Accounts Payable as of September 30th, consists of the following:

Accounts Payable	Amount
HICA Tax	\$ 320,000
Use Tax	728,000
Hospital Rate Adjustment	500,000
Other	352,912
Totals	\$ 1,900,912

Due to MDCH

Due to MDCH as of September 30th, consists of the following:

Due to	Amount
Due to MDCH – Habilitation Supports Waiver	\$ 181,107
Due to MDCH – Health Home Recoupment	257,368
Due to MDCH – Health Home Local	2,291
Totals	\$ 440,766

Unearned Revenue

Unearned revenue represents amounts received in advance of the period in which they were earned as follows:

Unearned Revenue	Amount
Healthy Michigan Carryforward	\$ 408,132
Medicaid Savings	2,153,122
Total	\$ 2,561,254

Restrictions on Net Position

A portion of the net position has been restricted equal to the net amount available in the Internal Service Fund (risk management) which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues. As of September 30th, this amount was \$8,791,664.

In the fund financial statements a portion of the fund balance at September 30th is considered un-spensible equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

NOTE 4. OTHER INFORMATION

Compliance Audits

The Entity participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Internal Service Fund

The Entity authorized the establishment of an internal service fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program Contract within the established risk corridor. This

Community Mental Health Partnership of Southeast Michigan
Notes to the Financial Statements
September 30, 2014

contract provides for the use of Department of Community Health funding for the establishment of Internal Service Funds.

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

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent almost all of the Entity's total revenues.

Change in Accounting Principle

In January 2013, the GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations. This Statement establishes accounting and financial reporting standards related to government combinations, transfers of operations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The Entity has decided that early implementation of GASB 69 would best serve the readers of these financial statements.

Transfer of Operations

Facts and assumptions

On January 1, 2014, Community Mental Health Partnership of Southeast Michigan (CMHPSM) assumed the role as the prepaid inpatient health plan ("PIHP") for the four counties designated by the Michigan Department of Community Health as Region 6. Washtenaw Community Health Organization had previously been serving this region as the PIHP. As a part of this change, the former PIHP was required to transfer all assets and liabilities related to the Medicaid contract to CMHPSM. The transfers from the former PIHP consisted of cash or cash equivalents, unearned revenue (Medicaid Savings) and net position restricted for Medicaid Risk Reserve (Medicaid ISF). No significant capital assets or debt was assumed with the transfer of operations. Also, there are no deferred outflows of resources or deferred inflows of resources associated with the transfer.

Accounting at the transfer date

The assets and liabilities transferred to the CMHPSM represent a set of assets, liabilities and net position for the purpose of serving as a PIHP, thus meeting the definition of an operation. There is no consideration given in the transaction.

CMHPSM recognizes the carrying values of assets and liabilities of the PIHP's transferred operations as of January 1, 2014 and special items of \$6.7 million representing the inflow of resources for the net position received. The values are listed below:

Description	Carrying Values
<i>Transferred Assets</i>	
Cash and cash equivalents	\$ 14,977,488
<i>Transferred Liabilities</i>	
Unearned revenue (Medicaid Savings) received from:	
Washtenaw Community Health Organization	6,185,824
<i>Transferred Net Position</i>	
Net position restricted for Medicaid Risk Reserve received from:	
Washtenaw Community Health Organization	\$ 8,791,664

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULES



Community Mental Health Partnership of Southeast Michigan
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
September 30, 2014

	Budgeted Amounts		General Fund	Variances with Final Budget
	Original	Final	Actual	
Revenues				
State funding				
Medicaid capitation	\$ 87,795,895	\$ 87,912,737	\$ 91,915,392	\$ 4,002,655
Healthy Michigan	-	-	5,260,122	5,260,122
Autism	-	-	657,272	657,272
Health Home	-	-	22,911	22,911
Adult Benefit Waiver	2,355,282	2,355,282	606,897	(1,748,385)
Total State funding	<u>90,151,177</u>	<u>90,268,019</u>	<u>98,462,594</u>	<u>8,194,575</u>
Contributions - Local match drawdown	-	-	1,183,335	1,183,335
Local Health Homes	-	-	2,291	2,291
Total revenues	<u>90,151,177</u>	<u>90,268,019</u>	<u>99,648,220</u>	<u>9,380,201</u>
Expenditures				
Funding for Community Mental Health Services Program				
Lenawee Community Mental Health Authority	12,180,899	12,180,899	10,448,057	1,732,842
Community Mental Health Services of Livingston County	15,200,462	15,200,462	15,780,365	(579,903)
Monroe Community Mental Health Authority	15,491,298	15,491,298	18,579,906	(3,088,608)
Washtenaw Community Health Organization	42,667,364	42,667,364	50,910,711	(8,243,347)
Total funding for CMHSP partners	<u>85,540,023</u>	<u>85,540,023</u>	<u>95,719,039</u>	<u>(10,179,016)</u>
Funding for Substance Use Disorder (SUD) services				
WCHO/Lenawee/Livingston Coordinating Agency	1,414,825	1,414,825	1,430,112	(15,287)
Southeast Michigan Coordinating Agency	311,704	311,704	453,002	(141,298)
Total funding for SUD services	<u>1,726,529</u>	<u>1,726,529</u>	<u>1,883,114</u>	<u>(156,585)</u>
Other contractual obligations				
Hospital Rate Adjuster	1,458,805	1,458,805	1,531,296	(72,491)
Use and HICA Tax	863,320	863,320	4,854,708	(3,991,388)
Local match expense	-	-	1,183,335	(1,183,335)
Local health home expense	-	-	2,291	(2,291)
Total other contractual obligations	<u>2,322,125</u>	<u>2,322,125</u>	<u>7,571,630</u>	<u>(5,249,505)</u>
CMHPSM Administrative expense				
Administrative contracts	562,500	679,342	655,698	23,644
All other costs	-	-	4,563	(4,563)
Total administrative expense	<u>562,500</u>	<u>679,342</u>	<u>660,261</u>	<u>19,081</u>
Total expenditures	<u>90,151,177</u>	<u>90,268,019</u>	<u>105,834,044</u>	<u>(15,566,025)</u>
Excess of revenues over expenditures before special item	-	-	(6,185,824)	6,185,824
Special Items				
Medicaid carryforward transfer from WCHO	-	-	6,185,824	(6,185,824)
Excess of revenues over expenditures after special item	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Community Mental Health Partnership of Southeast Michigan
Lansing, 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 governmental activities, each major fund and aggregate remaining fund information of Community Mental Health Partnership of Southeast Michigan (the Entity), as of and for the year ended September 30, 2014, 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 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
April 9, 2015

