Detroit Wayne Mental Health Authority

Financial Report
with Supplemental Information
September 30, 2018

Contents

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March 21, 2019

Board of Directors
Detroit Wayne Mental Health Authority
Detroit, Michigan

Ladies and Gentlemen:

I am pleased to present the financial statements for the Detroit Wayne Mental Health Authority (the Authority/DWMHA) for the fiscal year ended September 30, 2018 submitted in compliance with the laws and regulations of the State of Michigan. The State law requires that every general purpose local government publish a complete set of audited financial statements within six months of the close of each fiscal year.

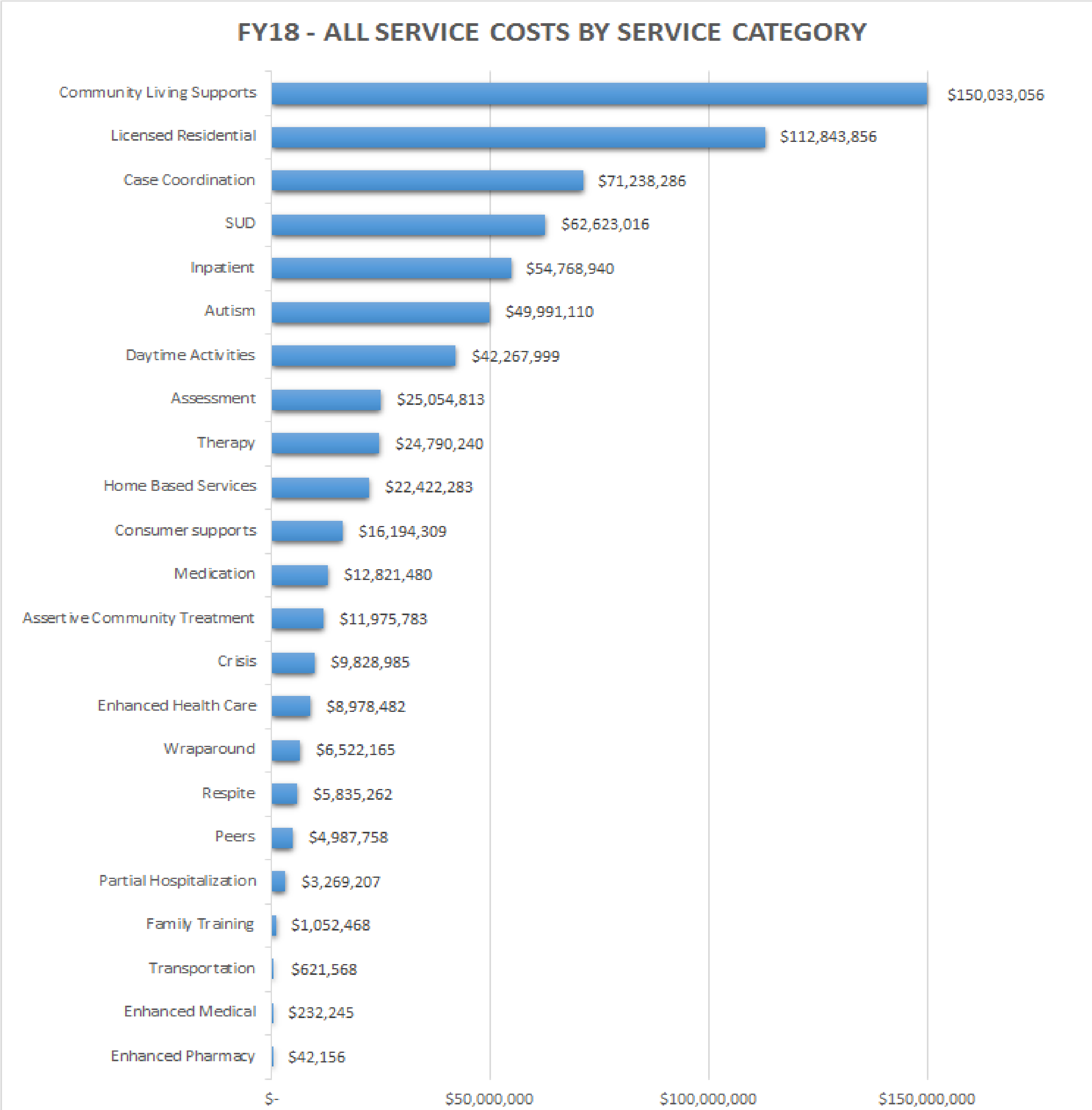
Management assumes full responsibility for the completeness, accuracy and fairness of the information contained in the report. Plante Moran, PLLC has issued an unmodified ("clean") opinion on the Authority. The independent Auditor's Report is located at the front of the financial section of this report. Management believes the information presented is materially accurate and that its presentation fairly shows the financial position and results of operations of the Authority and that the disclosures will provide the reader with an understanding of the Authority's affairs.

The Authority has prepared its financial reporting requirements as prescribed by the GASB Statement No. 34*, Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments* (GASB 34). This GASB Statement requires that management provide a narrative introduction, overview, and analysis that accompany the Basic Financial Statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction. The MD&A can be found immediately following the report of the independent auditors.

Profile and Demographics of the Authority

The Authority serves over 70,000 consumers located within the Charter County of Wayne (the County) in the State of Michigan with an approximate population of 1.8 million in the county. The County is the most populous county in the State of Michigan and the 19th most populous county in the nation. The County encompasses approximately 620 square miles and is made up of thirty four (34) cities, including the City of Detroit, nine (9) townships and thirty three (33) school districts. The following chart provides additional demographic information regarding persons served in FY18:

Population by Race	***Population***		***Percentage***
Black/African American	38,879		54%
White	22,907		31%
Other race	8,621		12%
Unreported	3,189		5%
Population by Service Area	***Population***		***Percentage***
Detroit	38,532		52%
Out-County	35,062		48%
Population by Age	***Population***		***Percentage***
Children (under 18)	16,036		22%
Adults (18-21)	3,753		5%
Adults (22-50)	32,277		45%
Adults (51-64)	16,811		23%
Adults (over 65)	4,719		6%
By Disability Designation	***Population***		***Percentage***
Adults with MI	42,346		64%
Children with SED	12,274		19%
Individuals with an I/DD	11,097		17%
SUD -Served (co-occurring with other populations)	11,861		
Insurance	***Consumers***		***Percentage***
Medicaid	44,978		61%
Healthy Michigan Plan	15,787		21%
General Fund/Spend-down	8,620		12%
MiHealthLInk	4,211		6%



Note: SUD = Substance Use Disorder

The Mental Health Code: Public Act 258 of 1974 (as amended

Michigan's Mental Health Code is the compilation of state laws governing the management and delivery of mental health services. The law was first established in 1974 and has since been amended, most significantly in 1996. There are currently forty six (46) community mental health service programs (CMHSP). The law requires the board consist of twelve (12) members appointed by county commissioners for three year staggering terms. The law also requires the CMH board approve an annual budget after holding a public meeting to obtain community input.

DWMHA Board of Directors

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The Reporting Entity and Its Services

In December of 2012, Governor Rick Snyder signed Public Acts 375 and 376 of 2012 that required Wayne County to establish its community mental health services program as an independent governmental entity, separate and distinct from the County functions. These acts mandated a change in governance from a Mental Health Agency to a Mental Health Authority. On June 6, 2013, Wayne County Commission approved the Enabling Resolution 2013-392 which created the new Authority. During this same period, the Application for Participation (AFP), which enabled the Authority to maintain its designation as a Prepaid Inpatient Health Plan (PIHP) as well as its eligibility to contract for Medicaid funds, was successfully completed and approved by the Michigan Department of Health and Human Services (MDHHS) (previously Michigan Department Community Health).

In addition, effective October 1, 2014, House Bills 4862 and 4863 signed December 28, 2012 transferred the duties of the Coordinating Agencies (CA) to the Prepaid Inpatient Health Plan. CA's were responsible for the administration of substance use disorders (SUD) services to Detroit and Wayne County residents; the prior Wayne County CA's were the City of Detroit (via Institute for Population Health) and Southeastern Michigan Coordinating Agency (SEMCA).

The purpose of the Authority is to ensure support, care and treatment services to adults with mental illness (SMI), individuals with intellectual and/or developmental disabilities (IDD), children with serious emotional disturbances (SED) and persons with substance use disorders (SUD) and their families so they can make choices in care, live in the community and achieve desired outcomes through individualized health goals.

Adult Mental Health Services Program

The purpose of the Adult Mental Health Program is to provide individualized psychiatric outpatient, residential, case management, hospital, and emergency treatment and supportive services to adults and families at risk of or experiencing a mental illness so they can achieve psychiatric stability and/or a stable living environment.

Intellectual/Developmental Disability Services Program

The purpose of the Intellectual/Developmental Disability Services Program is to provide screening/referral and specialized supports and services including skill building, community living services and personal care to children, adolescents and adults with intellectual/developmental disabilities so they can obtain their personal optimal level of independence. IDD are a group of conditions due to an impairment in physical, learning, language, or behavior areas that start in childhood.

Children's Mental Health Services Program

The purpose of the Children's Mental Health Services Program, in collaboration with community partners, is to provide individualized and family-centered psychiatric outpatient, home-based, crisis intervention and prevention services to children, adolescents, and their families at risk of experiencing a serious emotional disturbance so they can live within the community. The services are community-based, family centered, youth guided, cultural and linguistically responsive and trauma informed.

Substance Use Disorder Services Program

The purpose of the Substance Use Disorder Program is to provide assessment/eligibility determination, outpatient treatment, residential, referral and medication management services to children, adolescents and adults with substance abuse disorders so they can obtain and sustain individual recovery and participate fully in the community. With over seventy-five providers, our continuum of care consists of prevention, treatment and recovery services.

Mental Health Access Center Program

The purpose of the Mental Health Access Center Program is to provide screening, eligibility, enrollment information, emergency telephone referral and counseling services to service providers and individual callers with mental health concerns so they can receive an eligibility determination, choice of provider, program enrollment or requested/needed services or information within a timely manner.

Rights and Customer Supports Program

The purpose of the Rights and Customer Supports Program is to provide the legally mandated rights protection and consumer affairs (investigation of complaints and grievances; monitoring sites of service; training system staff and consumers; family subsidy; information; referrals), so consumers and their families can receive appropriate mental health services in accordance with the Federal, State and Local laws, rules, guidelines and policies.

Mental Health Oversight/Monitoring Program

The purpose of the Mental Health Oversight Program is to provide oversight and management of services that assure access, adequacy and appropriateness of services, efficiency and outcomes for individuals with mental illness, serious emotional disturbance, developmental disability and substance use disorders so they can obtain recovery and self-determination. As the public mental health system, the Authority offers a culturally diverse network of community mental health programs, clinics, private therapists, psychologists and psychiatrists to provide mental health services. We do our best to match consumers with the services needed at a location that is close to them.

The Authority provides services in coordination and collaboration with over one hundred fifty (150) contractors, including four (4) Managers of Comprehensive Provider Networks (MCPNs). The MCPNs are Care Link Network for individuals with mental illness and Community Living Services (CLS), Consumer Link Network, and Integrated Care Alliance (formerly Synergy Partners LLC) for individuals with developmental disabilities.

Threats to the Behavioral Health System - Section 298 Initiative

Governor Snyder's executive budget bill for 2017, issued in early 2016, included "boilerplate" language in section 298 that called for moving all Medicaid funding for "carved out," specialty, behavioral health benefits from the PIHPs to the Medicaid Health Plans (MHP) by the end of FY17. The Section 298 initiative was an effort to improve the coordination of public-funded physical and behavioral health services in the state. This initiative caused a tremendous public outcry from consumers, their families, advocates and providers of public behavioral health services. Members of the Authority staff and Board were among many key participants in efforts to push back against the Governor's proposal. The combined efforts of concerned persons across the state resulted in revised final legislation and what is now dubbed by MDHHS as the Section 298 Initiative.

On March 9, 2018, MDHHS announced pilot sites for the Section 298 Initiative. MDHHS used a Request for Information (RFI) process in order to select the pilot sites. Based upon this process, MDHHS selected three sites: Muskegon County CMH (dba HealthWest) and West Michigan CMH; Genesee Health System; and Saginaw County CMH Authority. The Authority was ineligible to respond to the RFI as we were both a CMHSP and PIHP, which excluded us.

The Michigan legislature approved an updated version of the boilerplate language as part of Public Act 207 of 2018. The new boilerplate language directed the MDHHS to continue to implement the pilots and demonstration project but also added some new requirements.

Major Initiatives and Achievements

The Authority had several achievements and initiatives during the year – (1) National Committee for Quality Assurance (NCQA) Accreditation; (2) Investment in Mental Health First Aid; (3) Successful Naloxone Initiative; (4) Significant investment in at-risk youth; and (5) Board approval to discontinue contracts with MCPN's.

National Committee for Quality Assurance
In May 2018, the Authority received a full three-year accreditation as a Managed Behavioral Healthcare Organization (MBHO) for NCQA. NCQA administers the most comprehensive evaluation in the industry and is the only assessment that bases results of clinical performance and consumer experience. NCQA is a private, non-profit organization dedicated to improving health care quality. NCQA accredits and certifies a wide range of health care organizations. It also recognizes clinicians and practices in key areas of performance. NCQA is committed to providing health care quality information for consumers, purchasers, health care providers and researchers and such recognition of the Authority is crucial to the overall success in moving forwards integration.

Mental Health First Aid (MHFA)
Mental Health First Aid is designed to teach people methods of assisting someone who may be in the early stages of developing a mental health challenge or in a mental health crisis. MHFA is an eight- hour public education curriculum designed to increase knowledge and skills around 1) the unique risk factors and warning signs of mental health problems, 2) the importance of early intervention, and 3) how to help someone who is in crisis or experiencing a mental health challenge. This curriculum uses role-plays and simulations to demonstrate how to assess the situation, select strategies for initial help, and to connect individuals to services.

The outcomes include:

- o Nine (9) organizations were identified as contractors for delivery of the MHFA trainings
- o Ten (10) MHFA training sessions conducted at Wayne State University
- o Three thousand thirty six (3,036) individuals were trained in MHFA
- o Nineteen hundred three (1,903) individuals were trained in QPR.
- o Over four hundred thirty (430) staff from the school systems were trained in MHFA.

Naloxone Initiative

The Authority provided support to Governor Snyder's initiative to respond to the increase in opioid overdose related deaths and to save lives in Wayne County. The Authority began providing free training to over three thousand six hundred (3,600) individuals and distributed Narcan kits in March 2016 to Wayne County law enforcement, the prevention and treatment networks, and the community. Narcan blocks or reverses the effects of opioid medication, including extreme drowsiness, slowed breathing, or loss of consciousness.

Training and Narcan Kits were provided to First Responders (all local/Wayne County departments), Border Patrol, College Campus Police, ATF, DEA, Attorney General's Office, prevention, treatment and recovery providers, faith based and civic organizations and residents. From October 2017 to September 2018, the Authority's naloxone initiative has saved one hundred seventy two (172) documented lives and three hundred eighteen (318) documented lives since March 2016.

At-Risk Youth Investment

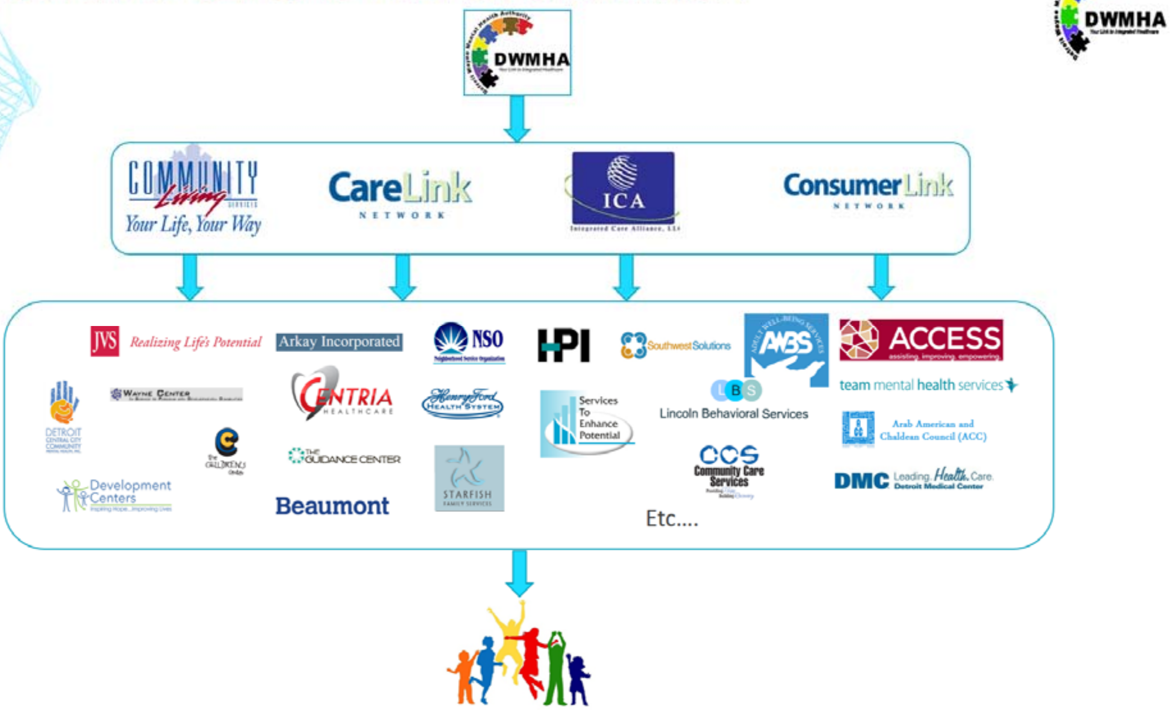
The Authority's Children Initiatives Department funded twelve (12) Community Mental Health (CMH) Contract Providers to deliver mental health services in a school- based setting. The providers collaborated with seventy-three (73) schools throughout Wayne County and the Authority allocated $3 million to this initiative. There were three components to the project: 1) Provide prevention and treatment services to students; 2) Provide parent education; and 3) Provide professional development to school personnel. For the months October 2017 through July 2018, two hundred fifty four (254) workshops/trainings were provided to one thousand five hundred forty four (1,544) parents and seventeen hundred ninety one (1,791) teachers. In addition, during the same time- frame, one thousand four hundred seventy nine (1,479) children and youth received individual CMH services in their schools, which improved family participation and decreased school disruption for the children and youth.

Finally, for the fourth year in a row, the Authority funded a youth employment initiative through sixteen (16) partnering organizations in Wayne County to employ young people over the summer. This year the Authority funded $5.1 million that employed three thousand six hundred seventy seven (3,677) youth ranging from ages 14-24. In addition, the funding supported the Young Professionals Conference whereby over fifteen hundred (1,500) youth participated. The conference presented various topics on building resilience for behavioral health, self-care, social skills and employment development. Topics also included bullying, conflict resolution, suicide prevention, substance use, and financial literacy.

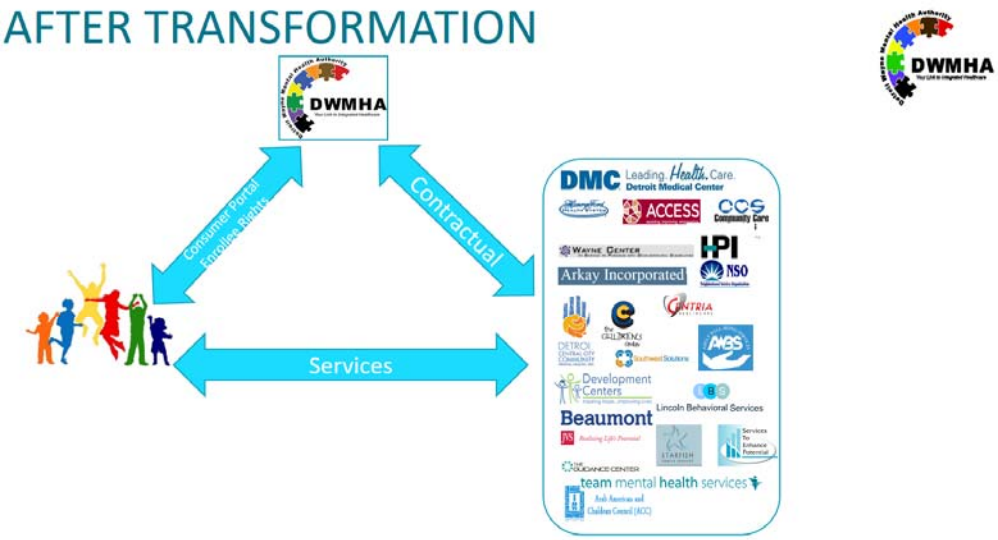
Systems Transformation

On June 25, 2018, the Authority board of directors approved a resolution to eliminate the four MCPNs. This resolution allows the Authority to assume all delegated responsibilities of the MCPNs and become a manager of care not just a funder of care. The Authority is moving toward a system of care that maximize the effectiveness of services and outcomes, member experience and quality. The following is an illustration of the before and after transformation:

DWMHA BEFORE TRANSFORMATION



DWMHA AFTER TRANSFORMATION



The preparation of the basic financial statements were made possible by the dedicated service of the entire staff of the Finance Department. Each member of the Department has our sincere appreciation for the contributions made in the preparation of this report. We would also like to express our appreciation to other Authority staff for their continued support of the policies of this Department.

Respectfully submitted

Stacie L. Durant
Chief Financial Officer

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Independent Auditor's Report

To the Board of Directors
Detroit Wayne Mental Health Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Detroit Wayne Mental Health Authority (the "Authority") as of and for the year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise Detroit Wayne Mental Health Authority'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 Detroit Wayne Mental Health Authority as of September 30, 2018 and the respective changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Detroit Wayne Mental Health Authority

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11-18 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, which 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 supplemental 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Detroit Wayne Mental Health Authority's basic financial statements. The budgetary comparison schedule and transmittal letter are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The transmittal letter (pages 1-8) and budgetary information schedule (page 32) have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2019 on our consideration of Detroit Wayne Mental Health Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Detroit Wayne Mental Health Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

March 21, 2019

These financial statements are the responsibility of the management of the Detroit Wayne Mental Health Authority (the Authority). We offer this narrative overview and analysis for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the financial statements and notes to the financial statements.

Financial Highlights

Total net position	$83,104,454
Change in total net position	(3,922,457)
Installment debt outstanding	6,704,245
Liquidity ratio	1.76

Background

On December 14, 2012, the Michigan Legislature approved and the Governor signed Public Acts 375 and 376 of 2012, a Mental Health Authority bill. Effective October 1, 2013, the new law transferred management and control to a separate legal entity (the Authority). The new Authority is comprised of twelve (12) board members; the County Executive and the Mayor of the City of Detroit each recommended six (6) members. The appointments of the twelve (12) board members are subject to confirmation by the Wayne County Commission. Prior to the Public Acts, the Authority, previously the Detroit Wayne County Community Mental Health Agency (the Agency), was reported in the Charter County of Wayne (the County) Comprehensive Annual Financial Report as a special revenue fund.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements Nos. 14 and 34*, the Authority is not a discretely presented component unit of Wayne County.

The Authority does not provide direct services to the community rather contracts with the Managers of Comprehensive Provider Network (MCPN) to administer the system. The MCPNs were created in 2002 in response to the State of Michigan's Application of Participation (AFP) which at the time mandated the MCPN model; refer to the notes to the financial statements for further discussion.

Dual Eligible Pilot Program (MI Health Link/MHL)

The State of Michigan selected the Authority as one (1) of four (4) Prepaid Inpatient Health Plans to participate in the Dual-Eligible demonstration pilot project (aka MI Health Link) that began in May 2015 and was extended to December 2020. The pilot was designed to integrate primary care with mental health and substance use disorder treatment to improve overall health care outcomes, create greater efficiencies in the delivery of services, and reduce costs. The integrated care model organizes the coordination of the Medicare and Medicaid benefits, and requires collaboration between the Integrated Care Organizations (ICOs), the Authority, and its privileged provider network. The project requires the reconfiguration of several operational areas at the Authority. It also involved developing and negotiating five (5) contracts with ICO's.

Overview of the financial statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements which include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, Notes to the Financial Statements, and Other Supplemental Information - Statement of Revenues, Expenses and Changes in Net Position – Budget to Actual.

In addition, the Authority will present its financial statements as a proprietary fund.

Financial Analysis

Net position may serve over time as a useful indicator of an organizations financial position. The following depicts the Authority net position at September 30, 2018 and 2017, respectively:

	2018	2017
Current and other assets	$ 143,160,189	$ 187,819,853
Noncurrent assets- restricted	3,765,515	2,224,393
Capital assets, net	14,861,649	14,195,613
Total Assets	161,787,353	204,239,859
Current liabilities	72,473,174	110,508,084
Notes Payable	6,209,725	6,704,864
Total Liabilities	78,682,899	117,212,948
Net position:		
Net investment in capital assets	8,157,404	7,013,791
Restricted	24,501,238	36,494,877
Unrestricted	50,445,812	43,518,243
Total net position	$ 83,104,454	$ 87,026,911

Current and other assets includes $33.3 million held in a separate bank account for the Medicaid Internal Service Fund (ISF) and reported as restricted net position. The ISF was established for risk funding for Medicaid cost over-runs and is a requirement of the PIHP contract with the State of Michigan. The Authority has $79.9 million held in a depository with Flagstar Bank and $16.3 million held in a CDARS with First Independence Bank. The decrease in current assets is attributable to a $21.5 million reduction in cash and investments activity throughout the year. The Authority incurred increased expenses primarily with the Serious Mentally Ill (SMI) population in outpatient services and SUD residential services. In addition, effective October 1, 2017, the State of Michigan mandated a $.50/hr. wage increase for all direct care workers serving Wayne County consumers.

Current liabilities consists of $48.8 million in accounts payable to various service providers. Due to other governments of $12.8 million is primarily attributable to the 2016 lapsed HMP funds the state has not cost -settled. Unearned revenue of $8.3 million includes MHL revenue and State general fund carryover of $7.6 million and $.7 million, respectively. The unearned revenue decreased by $18.9 million primarily due to the elimination of the prior year Healthy Michigan Plan savings of $19.8 million.

Net investment in capital assets consist primarily of the purchase of the Authority headquarters located in the historical New Center area in Detroit Michigan. The Authority purchased the building and three (3) parking lots for approximately $2.9 million with construction renovations completed on June 1, 2016. The notes payable of $6.27 million represents the amount of debt outstanding related to the construction of the building and office furnishing. Restricted net position consist of approximately $4.6 million in PA2 funds restricted for substance use disorders; the remaining amount is attributable to the Medicaid ISF.

The Statement of Revenues, Expenses and Changes in Net Position serve to report the cumulative revenue and expenses received and/or incurred for the organization.

	2018	2017
Revenues		
Federal grants and contracts	$ 20,952,128	$ 18,205,628
State grants and contracts	741,332,477	715,595,090
Local grants and contracts	26,848,529	26,426,766
Charges for services	8,944,973	10,109,481
Interest revenue	1,051,318	715,337
Other revenue	2,702,118	57,618
Total revenues	801,831,543	771,109,920
Expenses		
Mental health operating	30,808,200	28,387,722
MCPN costs	584,001,101	573,269,249
Substance use disorders	62,623,016	59,543,879
Autism services	50,045,789	31,385,853
MI HealthLink	17,040,230	18,028,219
HICA and Use tax	3,707,904	13,658,813
Direct contracts	57,269,171	55,633,241
Interest paid on debt	258,589	275,496
Total expenses	805,754,000	780,182,472
Change in Net Position	(3,922,457)	(9,072,552)
Net position - beginning of year	87,026,911	96,099,463
Net position - end of year	$ 83,104,454	$ 87,026,911

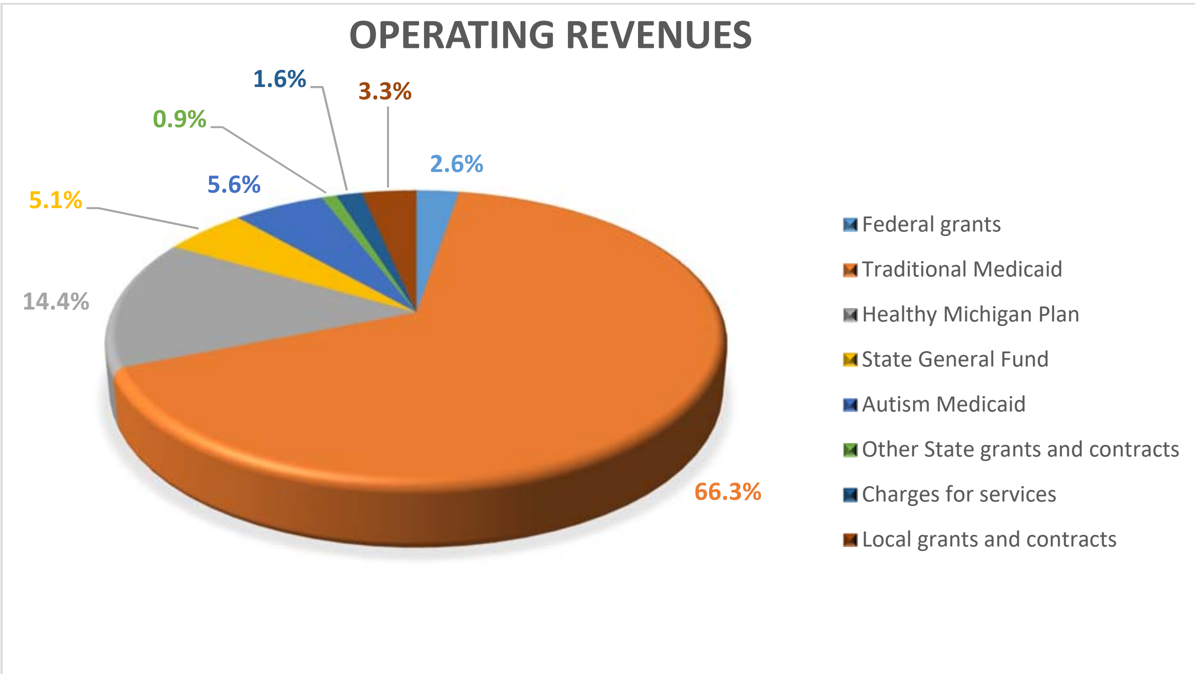
State grants consists of $530.9 million, $96.1 million, $45.1 million and $39.4 million in traditional Medicaid, Healthy Michigan, Autism Medicaid and State General Funds, respectively. The increase in State grants of $25.7 million relates to the recognition of the prior year Healthy Michigan savings of $19.8 million and the increase in Autism of $12.8 million. The increase was offset by a net reduction of $6.3 million in traditional Medicaid; the actual Medicaid reduction was $18.8 million. The State provided $12.5 million in Medicaid to fund the $.50/hr. mandated direct care workers (DCW) wage increase for the fiscal year. Local grants primarily consists of $17.7 million in Wayne County local match. The match is used to support: (1) Medicaid drawdown to the State; (2) 10% of state facilities cost and (3) 10% of most uninsured costs to Wayne County consumers. Additionally, local grants include $4 million in PA2 funds received from Wayne County. Charges for services consist of the revenue received from MI Health Link program from the ICO's. Other revenue relates to capital contribution received from a provider who ceased operations during the year and donated their real property to the Authority; the donated property is reported at fair market value.

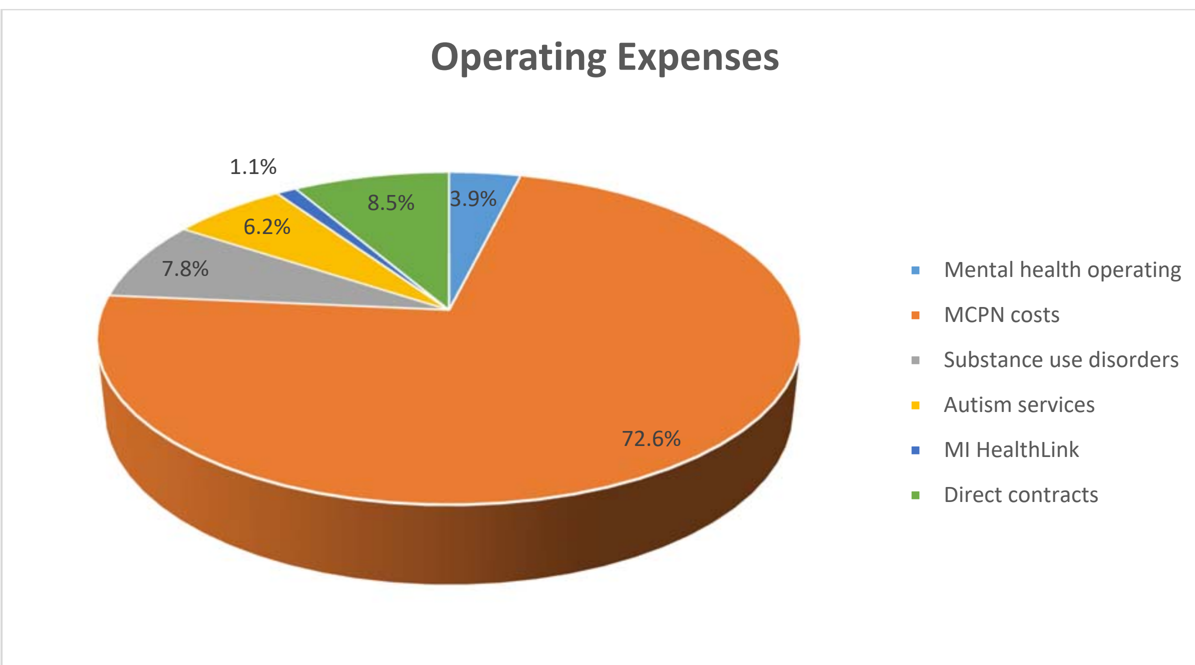
Operating costs include salaries and benefits totaling $17.3 million, the Access Center ($6.9 million), General Liability insurance ($.5 million), Interest payments on debt service ($.7 million) and annual maintenance of our electronic claims record system ($1.4 million).

MCPN costs represent the costs incurred by the four (4) MCPNs – Carelink Network, Consumer Link Network, Community Living Services, and Integrated Care Alliance (formerly Synergy Partners). The amount includes 3.2% administrative costs. The increase of $10.7 million in MCPN costs is directly attributable $7.3 million in provider and MCPN close out costs.

Autism services expanded for the entire year and served consumers' ages 0-21; the increase in costs of $18.7 million relates to the full expansion of the program. The reduction in HICA and Use Tax relates to the elimination of the 6% Use Tax effective January 1, 2017.

The Authority enters into contracts directly with providers for certain services that are not administered through the MCPN's. Such services include various programs through Wayne County (i.e. Jails, Clinic for Child Study) ($12.5 million); various federal programs (i.e. Housing and Urban Development (HUD), PASARR nursing home assessment services, System of Care and Transformation providers - $7.9 million); local portion of state facilities ($5.9 million); youth prevention and employment programs ($10.1 million); Crisis residential services (i.e. COPE $7.0 million) and Medicaid drawdown ($5.1 million).





The following shows a comparison of the final amended budget to actual results in the Statement of Revenue, Expenses, and Changes in Net Position:

	Final Amended Budget	Actual	Increase (Decrease)
Operating revenues			
Federal grants and contracts	$ 22,497,785	$ 20,952,128	$ (1,545,657)
State grants and contracts	722,177,250	741,332,477	19,155,227
Local grants and contracts	22,101,346	26,848,529	4,747,183
Charges for services	12,000,000	8,944,973	(3,055,027)
Total operating revenues	778,776,381	798,078,107	19,301,726
Operating expenses			
Personnel	14,099,098	12,733,678	(1,365,420)
Fringe benefits	5,082,545	4,642,609	(439,936)
MCPN costs	561,132,239	584,001,101	22,868,862
Substance use disorders	55,863,822	62,623,016	6,759,194
Autism services	45,704,280	50,045,789	4,341,509
MI HealthLink	12,000,000	17,040,230	5,040,230
HICA and Use tax	6,458,022	3,707,904	(2,750,118)
Direct contracts	65,796,214	57,269,171	(8,527,043)
Operating costs	11,562,367	12,104,123	541,756
Depreciation	1,494,000	1,327,790	(166,210)
Total operating expenses	$ 779,192,587	$ 805,495,411	26,302,824
Operating income (loss)	(416,206)	(7,417,304)	(7,001,098)
Non-operating revenue (expense)			
Interest expense	(258,589)	(258,589)	-
Capital contributions	-	2,702,118	2,702,118
Investment earnings	674,795	1,051,318	376,523
Total non-operating revenue	416,206	3,494,847	3,078,641
Change in net position	$ -	(3,922,457)	$ (3,922,457)
Net position - beginning of year		87,026,911	
Net position - end of year		$ 83,104,454	

Salaries and related fringes represent the salaries, benefits and pension costs for approximately two hundred sixteen (216) Authority employees, board members and contractual staff. The variance is due to approximately twenty- four (24) budgeted vacant positions.

Budgetary Highlights

The Authority adopted an annual operating budget by October 1 of the previous year. The budgetary comparison schedule has been provided to demonstrate compliance with this budget. During the year, there were several significant changes from the original to the final amended budget. The changes are as follows:

	Adopted Budget	Final Amended Budget	Variance Over (Under)
Federal grants and contracts	$ 20,676,408	$ 22,497,785	$ 1,821,377
State grants and contracts	682,512,125	722,177,250	39,665,125
Local grants and contracts	22,106,447	22,101,346	(5,101)
Other operating revenue	12,000,000	12,000,000	-
Total operating revenues	737,294,980	778,776,381	41,481,401
Salaries and related fringes	$ 19,376,237	$ 19,181,643	$ (194,594)
MCPN costs	537,503,990	560,974,236	23,470,246
Substance use disorders	57,048,396	55,863,822	(1,184,574)
Autism services	26,751,518	45,704,280	18,952,762
MI HealthLink	12,000,000	12,000,000	-
HICA and Use tax	6,458,022	6,458,022	-
Direct contracts	64,367,901	65,954,218	1,586,317
Operating costs	12,711,122	11,562,366	(1,148,756)
Depreciation	1,494,000	1,494,000	-
Total operating expenses	$ 737,711,186	$ 779,192,587	$ 41,481,401
Nonoperating Revenue (expense)			
Interest paid on debt	(258,589)	(258,589)	
Investment earnings	674,795	674,795	-
	416,206	416,206	
Change in net position	$ -	$ -	$ -

Economic Factors and Next Year's Budget

- In December 2018, MDHHS informed the Pre-Paid Inpatient Health Plans that they would not be updating the geographic factor to the Milliman funding model effective January 1, 2019 as previously communicated; the factor is a key element in the distribution of Medicaid funds to the ten (10) PIHP's; the Authority believed that the updated geographic factor would have a positive impact on its funding in fiscal year 2019.
- There has been a significant migration from Disabled Aged and Blind (DAB) to Temporary Assistance for Needy Families (TANF) and Healthy Michigan enrollments. This migration has resulted in approximately $42 million in lost Medicaid. There is a belief that DHS workers are encouraging the consumers to enroll in the less cumbersome process required of TANF and HMP.

- MDHHS is moving forward with pilot projects for the 298 initiative. This initiative will have a significant impact on how PIHP's will operate in the future.
- Several years ago, MDHHS established a workgroup amongst the CMHSP's to review and make recommendations on how State General Fund will be allocated between the Community Mental Health Services Program (CMHSP's); the workgroup's recommendation included up to a $22 million reduction to the Authority appropriation. The Governor's FY19 recommended budget included the workgroups recommendation; however, the legislation provided a one-time supplemental that neutralized the reduction; the future of the Authority's general fund is unknown.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the financial information or requests for additional financial information, should be addressed to the following:

Detroit Wayne Mental Health Authority
Chief Financial Officer
707 W. Milwaukee
Detroit, Michigan 48202

Statement of Net Position

	September 30, 2018
Assets	
Current assets:	
Cash and investments (Note 3)	$ 127,449,256
Receivables: (Note 5)	
Accounts receivable	6,796,997
Due from other governmental units	8,854,861
Prepaid expenses and other assets	59,075
Total current assets	143,160,189
Noncurrent assets:	
Restricted cash (Note 9)	2,120,515
Asset held for resale	1,645,000
Capital assets: (Note 6)	
Assets not subject to depreciation	858,000
Assets subject to depreciation	14,003,649
Total noncurrent assets	18,627,164
Total assets	161,787,353
Liabilities	
Current liabilities:	
Accounts payable	48,771,672
Due to other governmental units	12,818,836
Due to Charter County of Wayne, Michigan	1,258,081
Unearned revenue (Note 10)	8,335,322
Compensated absences	794,743
Current portion of long-term debt (Note 7)	494,520
Total current liabilities	72,473,174
Noncurrent liabilities - Long-term debt (Note 7)	6,209,725
Total liabilities	78,682,899
Net Position	
Net investment in capital assets	8,157,404
Restricted:	
Restricted for substance abuse disorder PA2 (Note 11)	4,569,416
Restricted for risk financing - Medicaid ISF (Note 11)	19,931,822
Unrestricted	50,445,812
Total net position	**$ 83,104,454**

See notes to financial statements.

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended September 30, 2018
Operating Revenue	
State grants and contracts	$ 741,332,477
Charges for services	8,944,973
Local grants and contracts	26,848,529
Federal grants and contracts	20,952,128
Total operating revenue	798,078,107
Operating Expenses	
Personnel	12,733,678
Fringe benefits	4,642,609
Autism services	50,045,789
MI Health Link	17,040,230
Operating costs	12,104,123
Substance disorder services	62,623,016
MCPN services	584,001,101
HICA and use tax	3,707,904
Direct contracts	57,269,171
Depreciation	1,327,790
Total operating expenses	805,495,411
Operating Loss	(7,417,304)
Nonoperating Revenue (Expense)	
Investment income	1,051,318
Contributions	2,702,118
Interest expense	(258,589)
Total nonoperating revenue	3,494,847
Change in Net Position	(3,922,457)
Net Position - Beginning of year	87,026,911
Net Position - End of year	**$ 83,104,454**

Statement of Cash Flows

	Year Ended September 30, 2018
Cash Flows from Operating Activities	
Cash received from state and federal sources	$ 761,122,058
Cash received from local sources	28,290,280
Payments to providers and suppliers	(807,612,291)
Payments to employees	(18,696,619)
Cash due from state and federal sources	16,027,205
Net cash used in operating activities	(20,869,367)
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of capital assets	46,670
Purchase of capital assets	(983,378)
Principal and interest paid on capital debt	(736,166)
Net cash used in capital and related financing activities	(1,672,874)
Cash Flows Provided by Investing Activities - Interest received on investments	1,051,318
Net Decrease in Cash and Cash Equivalents	(21,490,923)
Cash and Cash Equivalents - Beginning of year	151,060,694
Cash and Cash Equivalents - End of year	**$ 129,569,771**
Classification of Cash and Cash Equivalents	
Cash and investments	$ 127,449,256
Restricted cash	2,120,515
Total cash and cash equivalents	**$ 129,569,771**
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	$ (7,417,304)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	1,327,790
Changes in assets and liabilities:	
Account receivable	7,051,786
Due from other governmental units	16,027,205
Prepaid and other assets	193,628
Accounts payable	(8,306,535)
Accrued wages and compensated absences	115,474
Unearned revenue	(18,942,558)
Due to Charter County of Wayne, Michigan	(5,026,496)
Due to other governmental units	(5,892,357)
Net cash used in operating activities	**$ (20,869,367)**

See notes to financial statements.

Note 1 - Nature of Business

The financial statements of the Detroit Wayne Mental Health Authority (the "Authority") have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to governmental units. The more significant of the Authority's accounting policies are described below.

Reporting Entity

Under the provisions of the Michigan Legislature Public Acts 375 and 376 of 2012, and effective October 1, 2013, the Detroit Wayne Mental Health Authority was created for the purpose of providing a comprehensive array of mental health and substance use services for the Charter County of Wayne, Michigan (the "County") residents, such as, but not limited to, inpatient, outpatient, partial day, residential, case management, prevention, consultation, and education. The Authority was previously a department within the County. The Authority is a separate legal entity and is not considered a related organization or component unit of the County.

Pursuant to House Bills 4862 and 4863, effective October 1, 2014, the duties and responsibilities of substance use disorders were transferred to the Prepaid Inpatient Health Plans (PIHP), which is the Authority. The duties were previously performed by the City of Detroit, Michigan and SEMCA, referred to as the "Coordinating Agencies."

Program Operations

The Authority's operations are governed under the provisions of Act 258 of the Public Act of Michigan of 1974, commonly known as the "Mental Health Code" (the "Code"). Pursuant to the Code, a board of directors (the "Board") was established to govern the Authority. The Authority is subject to federal government and Michigan Department of Health and Human Services (MDHHS) rules and regulations and the Code. The Authority contracts with Managers of Comprehensive Provider Networks (MCPN) to administer the mental health programs. The Authority provides administrative oversight and does not provide any direct services to consumers.

Board of Directors

The board consists of 12 members, 6 recommended by the mayor of the City of Detroit, Michigan and 6 recommended by the county executive. The recommendations are subject to the approval of the Wayne County Commission. Each board member is appointed for a three-year term.

Funding Sources

The Authority receives its primary funding from the State through Medicaid and state General Fund contracts. The County provides local match funding in accordance with the Mental Health Code, which is used by the Authority to leverage federal dollars and 10 percent of certain services incurred by uninsured consumers.

Changes in Funding Formula

In an effort to deinstitutionalize mental health services, state funding for public mental health services has evolved. Prior to October 1, 1998, Michigan mental health agency programs billed Medicaid on a fee-for-service (FFS) basis.

Effective for services provided on and after October 1, 1998, the Health Care Financing Administration (HCFA) approved Michigan's 1915(b)-waiver request to implement a managed-care plan for Medicaid-reimbursed mental health services. These managed-care plans allowed Community Mental Health Services Programs (CMHSP) to manage, provide/arrange, and pay for Medicaid mental health services covered by the CMHSP. In addition, the CMHSP receives a capitated rate on a per member per month basis to provide services and is responsible for directly reimbursing the service providers who render these services. In the fiscal year ended September 30, 2000, the Authority and MDHHS entered into a Specialty Services and Supports Managed Care Contract (the "Managed Care Contract").

Note 1 - Nature of Business (Continued)

In 2002, CMHSPs were required to submit an Application for Participation (AFP) for scoring by the MDHHS in order to be considered eligible to qualify as Prepaid Inpatient Health Plan (PIHP) entity capable of administering the managed specialty services under the waiver program. One of the requirements of the AFP unique to the Authority was that networks for services were to be competitively created and bid out by various service providers and that the bulk of the Authority's funding was to be disbursed to these networks referred to as MCPNs.

Note 2 - Significant Accounting Policies

Report Presentation

This report includes the fund-based statements of the Authority. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

The Authority adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*. Under GASB No. 34, the Authority is classified as a special purpose government and is required to present statements required for enterprise funds. The Authority reports its operations in the basic financial statements in an enterprise fund. The Medicaid Risk Reserve Fund is governed by the contract with the MDHHS and is restricted for cost overruns related to the Medicaid contract.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Authority is charges related to serving its consumers (including primarily "per member per month" capitation and state and county appropriations). Operating expenses for the Authority include cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Basis of Accounting

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The proprietary funds are accounted for using the accrual basis of accounting. Their revenue is recognized when it is earned, and their expenses are recognized when they are incurred. The proprietary funds are accounted for on a cost-of-services or economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net position. Proprietary fund-type operating statements present increases (revenue) and decreases (expenses) in total net position.

The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenue, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. For the basic financial statements, there is one generic fund type and broad fund category as follows:

Proprietary Fund - Enterprise Fund - The fund is used to account for those activities that are financed and operated in a manner similar to private business. Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. This enterprise fund of the Authority accounts for its general operations and also reports amounts restricted for the Medicaid Risk Reserve allowed by the contract with the MDHHS.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Authority's cash and investments are held in depository accounts, institutional money market accounts, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Accounts Receivable and Due from Other Governmental Units

Accounts receivable represent balances due from the Integrated Care Organizations (ICOs) related to the MI Health Link program. In addition, the Authority cost settles with the MCPNs for amounts in excess of payments and costs incurred for services. The amounts of overpayment are determined through audits and/or cost reconciliation. An allowance for uncollectibles has been established based on management's estimate using historical trends. Management considers all accounts receivable collectible, and, therefore, an allowance for uncollectibles has not been recorded at September 30, 2018. Due from other governmental units represents revenue not yet received from the state and federal government.

Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses in the accompanying statement of net position.

Capital Assets

Capital assets are defined by the Authority as assets with an individual cost of more than $5,000 and an estimated useful life in excess of one year. All assets are recorded at historical costs, and donated assets are recorded at acquisition value at the time of the donation. Capital assets are depreciated using the straight-line method over a period of 5-20 years.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings	20
Office equipment	5-7
Vehicles	5-7
Software	10

Restricted Cash

Restricted cash information is included in Note 9.

Due to Charter County of Wayne, Michigan

Amounts due to the County include amounts owed to the jails, Third Circuit Court, and Children and Family Services for services rendered.

Accounts Payable and Due to Other Governmental Units

Accounts payable balances include final expenditures due to service providers for the current fiscal year. Due to other governments represents amounts owed to the State of Michigan.

Note 2 - Significant Accounting Policies (Continued)

Compensated Absences

Employees earn paid time off (PTO) benefits based, in part, on length of service. PTO is fully vested when earned. Upon separation from service, employees are paid accumulated PTO based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of PTO leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding these limitations are forfeited.

Unearned Revenue

The Authority reports unearned revenue in connection with resources that have been received, but not yet earned.

State Grants and Contracts Revenue

The Authority's primary funding source was from the State of Michigan through Medicaid (traditional and Healthy Michigan) and state General Fund contracts totaling approximately $707.6 million and $43.2 million, respectively, for the year ended September 30, 2018; this includes prior years saving and carryovers. The remaining balance was composed of various other state grant contracts.

MCPN Services

The Authority contracts with MCPNs to administer the delivery of mental health services to adults, individuals with developmental disabilities, and children with serious emotional disturbances. Expenses include payments for current year services and administrative costs to the MCPNs.

Direct Contracts

The Authority contracts with various community-based organizations to deliver mental health and SUD services to adults, individuals with developmental disabilities, and children with serious emotional disturbances. In addition, the Authority contracts with several county departments to administer mental health services, including but not limited to the jails, Children and Family Services, and Third Circuit Court.

Assets Held for Resale

The Authority has two properties held for resale totaling approximately $1.6 million for the year ended September 30, 2018. The properties are reported at fair market value.

Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers’ acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in any securities allowed under the act. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. At year end, the Authority had $112,252,407 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At year end, the Authority had the following investments and maturities:

Investment	Fair Value	1-5 Years
Municipal bonds	$ 447,381	$ 447,381
Negotiable certificates of deposit	521,783	521,783
Total	$ 969,164	$ 969,164

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds, and qualified external investment pools, as identified in the list of authorized investments above. The Authority’s investment policy does not have specific limits in excess of state law on investment credit risk. As of year end, the Authority's investments were rated as follows:

Investment	Fair Value	Rating	Rating Organization
Municipal bonds	$ 447,381	AA	S&P
Negotiable certificates of deposit	521,783	N/R	N/A
Total	$ 969,164		

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk, as identified in the list of authorized investments above. The Authority’s investment policy specifies that no more than 40 percent of the total investment portfolio will be invested in a single security type, and no more than 40 percent of the total investment portfolio shall be invested in assets issued or managed by a single financial institution. At September 30, 2018, the Authority had all investments held in various certificates of deposits and municipal bonds.

Note 4 - Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances whereby inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Authority has the following recurring fair value measurements as of September 30, 2018:

	Assets Measured at Fair Value on a Recurring Basis		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Municipal bonds	$ -	$ 447,381	$ -
Negotiable certificates of deposit	-	521,783	-
Total assets	$ -	$ 969,164	$ -

Note 4 - Fair Value Measurements (Continued)

The fair value of the Authority's investments at September 30, 2018 was determined primarily based on Level 2 inputs. The Authority estimates the fair value of these investments using the matrix pricing model, which includes inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Note 5 - Accounts Receivable and Due from Other Governmental Units

The Authority cost settles with the MCPNs for amounts in excess of payments and costs incurred for services. The accounts receivable balance at September 30, 2018 was approximately $6.8 million, of which approximately $3.5 million is due from MCPNs for costs settlements, and $1.9 million is due from Wayne County, Michigan for Public Act 2 funds.

The due from other governmental units balance at September 30, 2018 was approximately $8.9 million. This consists of $8.6 million due from the State of Michigan and $0.2 million due from the federal government.

Note 6 - Capital Assets

Capital asset activity of the Authority was as follows:

Business-type Activities

	Balance October 1, 2017	Additions	Disposals and Adjustments	Balance September 30, 2018
Capital assets not being depreciated - Land	$ 540,000	$ 318,000	$ -	$ 858,000
Capital assets being depreciated:				
Buildings and improvements	11,984,850	1,360,771	-	13,345,621
Computers	935,760	243,317	-	1,179,077
Vehicles	1,234	7,247	-	8,481
Office equipment	1,508,780	21,455	-	1,530,235
Software	2,373,954	43,036	-	2,416,990
Subtotal	16,804,578	1,675,826	-	18,480,404
Accumulated depreciation:				
Buildings and improvements	843,133	602,060	-	1,445,193
Computers	492,620	177,895	-	670,515
Office equipment	453,915	304,507	-	758,422
Software	1,359,297	243,328	-	1,602,625
Subtotal	3,148,965	1,327,790	-	4,476,755
Net capital assets being depreciated	13,655,613	348,036	-	14,003,649
Net capital assets	$ 14,195,613	$ 666,036	$ -	$ 14,861,649

Note 7 - Long-term Debt

On August 28, 2014, the Authority signed a seven-year term and a seven-year construction notes payable (20-year amortization period) with Flagstar Bank totaling $6.96 million for the construction phase on the new authority headquarters, which matures in 2023. On the same day, the Authority also entered into a five-year equipment note with Flagstar for $1.24 million for the purchase of the office furniture and fixtures, which matures in 2021. As of September 30, 2018, the Authority's long-term debt was as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
General obligations	3.3%-3.8%	$8,000-$3,297,000	$ 7,181,822	$ -	$ 477,577	$ 6,704,245	$ 494,520
Accumulated compensated absences			671,375	1,026,885	903,517	794,743	794,743
Total			$ 7,853,197	$ 1,026,885	$ 1,381,094	$ 7,498,988	$ 1,289,263

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above liability are as follows:

Years Ending September 30	Principal	Interest	Total
2019	$ 494,520	$ 241,645	$ 736,165
2020	512,105	224,060	736,165
2021	462,456	204,785	667,241
2022	273,631	191,841	465,472
2023	4,961,533	580,642	5,542,175
Total	$ 6,704,245	$ 1,442,973	$ 8,147,218

Note 8 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance policies to cover property, torts, employee injuries, and medical benefits. Accruals for claims, litigation, and assessments are recorded by the Authority when those amounts are estimable and probable at year end.

Note 9 - Restricted Assets

The restricted cash balance of $2,120,515 is maintained per the Authority's construction loan agreements.

Note 10 - Unearned Revenue

Unearned revenue includes amounts of $8,335,322 of MDHHS contract funding ($7,638,725 of MI Health Link and $696,597 of General Fund carryforward) that was unearned at September 30, 2018 and will be carried over to be expended in the subsequent fiscal year.

Note 11 - Restricted Net Position

Contributions are allowed under the MDHHS contract for Medicaid risk (Internal Service Fund/ISF) and, accordingly, are shown as restricted net position in the statement of net position. For the year ended September 30, 2018, the activity of the net position restricted for risk financing (Medicaid ISF) was as follows:

Beginning balance	$ 32,185,581
Abatement	(12,731,449)
Interest revenue	477,690
Ending balance	$ 19,931,822

The Authority also reported $4,569,416 in funds restricted for substance use disorder services as of September 30, 2018.

Note 12 - Defined Contributions Pension Plan

The Authority provides pension benefits to all of its full-time employees through a defined contribution plan administered by the Michigan Employees' Retirement System (MERS). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to contribute. The plan provides for the employee to contribute up to a 2 percent pretax contribution and up to an 8 percent employer match. Union employees are fully vested after three years of service, and employees at will are fully vested after one year of service.

The employee and employer contributions for the defined contribution plan were $241,057 and $959,929, respectively, for the year ended September 30, 2018.

Note 13 - Commitment and Contingent Liabilities

Amounts received or receivable from grantor/contract agencies are subject to audit and potential adjustment by those agencies, principally the state and federal governments. As described in Note 2, the Authority receives the majority of its funding through MDHHS. MDHHS uses a compliance examination and cost settlement process to determine disallowed costs and final receivable and payable balances of the Authority. Historically, the cost settlement process has taken two or more years for MDHHS to complete. Any disallowed costs, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of costs, which may be disallowed by the grantor or contract agencies, cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

The Authority is periodically a defendant in various lawsuits. Although the outcome of such lawsuits currently pending or threatened, if any, is not presently determinable, it is the opinion of the Authority's management and counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

Other Supplemental Information

Statement of Revenue, Expenses, and Changes in Net Postion
Budgetary Comparison
Year Ended September 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Operating Revenue				
State grant and contracts	682,512,125	722,177,250	741,332,477	19,155,227
Charges for services	12,000,000	12,000,000	8,944,973	(3,055,027)
Local grants and contracts	22,106,447	22,101,346	26,848,529	4,747,183
Federal grants and contracts	20,676,408	22,497,785	20,952,128	(1,545,657)
Total operating revenue	737,294,980	778,776,381	798,078,107	19,301,726
Operating Expenditures				
Personnel	14,338,128	14,099,098	12,733,678	1,365,420
Fringe benefits	5,038,109	5,082,545	4,642,609	439,936
Autism services	26,751,518	45,704,280	50,045,789	(4,341,509)
MI Health Link	12,000,000	12,000,000	17,040,230	(5,040,230)
Operating costs	12,711,122	11,562,367	12,104,123	(541,756)
Substance disorder services	57,048,396	55,863,822	62,623,016	(6,759,194)
MCPN services	537,503,990	561,132,239	584,001,101	(22,868,862)
HICA and use taxes	6,458,022	6,458,022	3,707,904	2,750,118
Direct contracts	64,367,901	65,796,214	57,269,171	8,527,043
Depreciation	1,494,000	1,494,000	1,327,790	166,210
Total expenditures	737,711,186	779,192,587	805,495,411	(26,302,824)
Operating Loss	(416,206)	(416,206)	(7,417,304)	(7,001,098)
Nonoperatng Revenue (Expense)				
Investment income	674,795	674,795	1,051,318	376,523
Interest paid on debt	(258,589)	(258,589)	(258,589)	-
Gain on sale of assets	-	-	-	-
Total nonoperating revenue	416,206	416,206	792,729	376,523
Capital Contributions	-	-	2,702,118	2,702,118
Change in Net Position	$ -	$ -	$ (3,922,457)	$ (3,922,457)