Detroit Wayne Mental Health Authority

Financial Report
with Supplemental Information
September 30, 2016

Detroit Wayne Mental Health Authority

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March 22, 2017

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) for the fiscal year ended September 30, 2016 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 80,000 consumers located within the County of Wayne in the state of Michigan with an approximate population of 1.8 million in the county. Wayne County encompasses approximately 600 square miles and is made up of thirty four (34) cities, including the City of Detroit, nine (9) townships and forty-one (41) school districts. The following chart provides additional demographic information regarding persons served in FY16:

Members Served - FY16

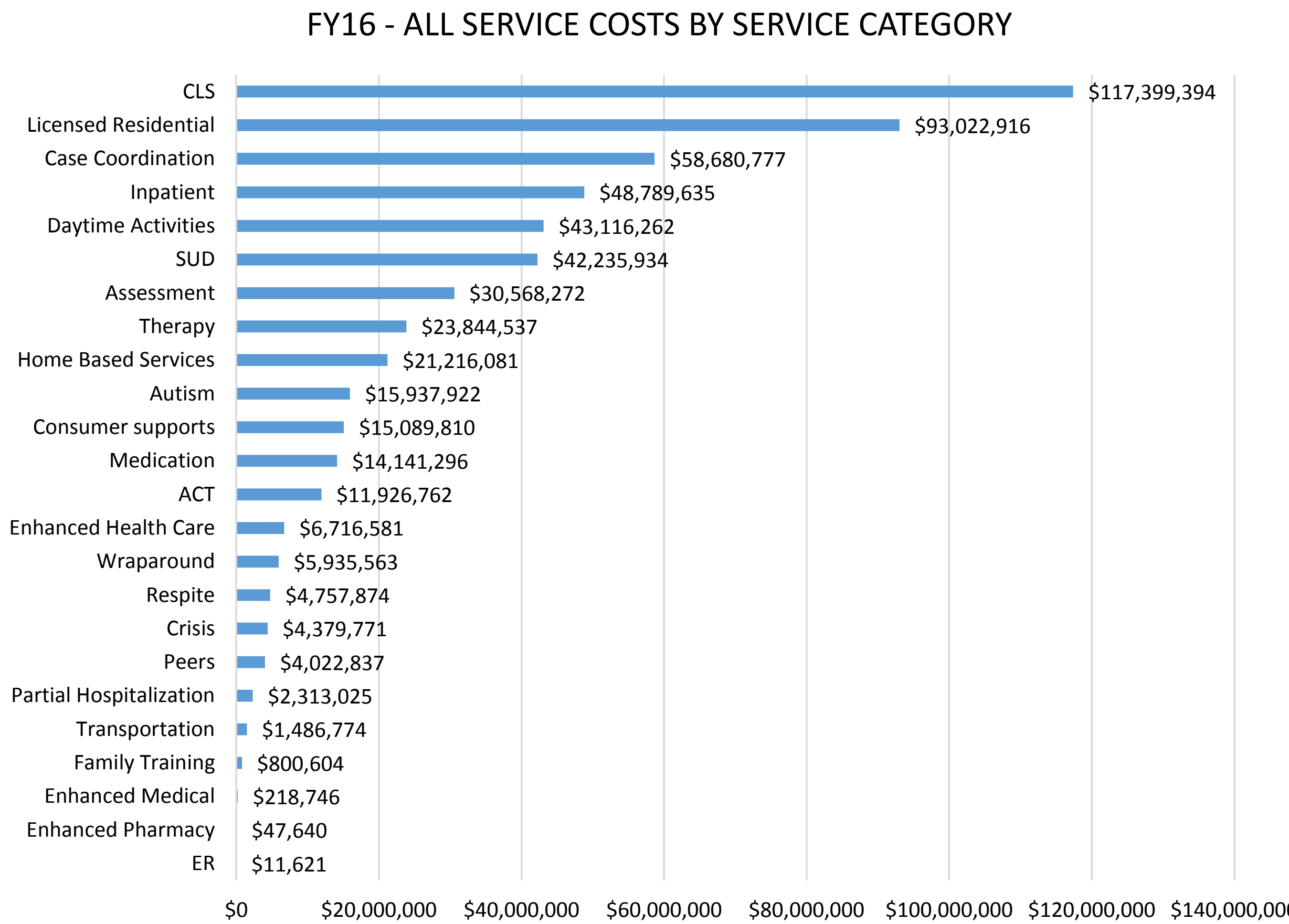
Race	***Members***
Black or African American	40,206
White	23,388
Unreported	10,800
Other race	5,087
Two or more races	3,397
Asian	261
Refused to Provide	132
American Indian (non-Alaskan)	127
Some Other Race	59
Native Hawaiian or other Pacific	40
Unknown Race	39
Consumer Refused to Provide Information	9
Alaskan native (Aleut, Eskimo)	7
American Indian or Alaskan Native	6
Native Hawaiian or other Pacific Islander	2

City	**Members**
Detroit	43,179
Out-County	36,659

Age Category	***Members***
Children (<18)	17,201
Adults (18-50)	39,298
Adults (51-64)	17,994
Adults (65)	3,892

Disability Designation	***Members***
DD	10,582
SED	14,254
SMI	47,754

Sud Served	11,428



Note: CLS = Community Living Supports; ACT = Assertive Community Treatment

<u>The Mental Health Code: Public Act 258 of 1974 (as amended)</u>

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.

The Reporting Entity and Its Services

In December of 2012, Governor Rick Snyder signed Public Acts 375 and 376 of 2012 that required the Charter County of Wayne (the County) to establish its community mental health services program as an independent governmental entity, separate and distinct from Wayne 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 (PIHP). 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 SEMCA.

The purpose of the Authority is to ensure support, care and treatment services to adults with mental illness, individuals with intellectual and/or developmental disabilities, children with serious emotional disturbances and persons with substance use disorders 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.

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.

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.

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 program 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 80 contractors, including five (5) Managers of Comprehensive Provider Networks (MCPNs). The MCPNs are Care Link Network and Gateway Community Health (GCH) 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. Effective June 17, 2016, the Authority canceled the Gateway contract and all consumers were transferred to Carelink.

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. This directive 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.

The Section 298 Initiative is a statewide effort to improve the coordination of physical health services and behavioral health services in Michigan. This initiative is based upon Section 298 in the Public Act 268 of 2016. Under Section 298, the Michigan Legislature directs the Michigan Department of Health and Human Services to develop a set of recommendations "regarding the most effective financing model and policies for behavioral health services in order to improve the coordination of behavioral and physical health services for individuals with mental illnesses, intellectual and developmental disabilities, and substance use disorders."

The Department is currently working towards developing a set of recommendations for the Michigan Legislature. The Department has convened a work group to assist with this process. The Department will consult with persons who receive services, families, providers, service agencies, associations and other stakeholders throughout this process. Obviously the outcome of this imitative will have a significant impact on the Authority.

Major Initiatives and Achievements

The Authority had several achievements and initiatives during the year – (1) Cancelation of the Gateway Health Systems contract; (2) Assisted Flint in water crisis; (3) Significant investment in at-risk youth; (4) Increased wages for all qualified direct care workers in the DWMHA service network and established a minimum wage for them greater than the state required minimum wage and (5) Development of the Authority's first Strategic Plan.

Gateway Contract Closeout

On May 18, 2016, the Authority's Board of Directors, based on exceptional staff work and multiple outside audits, voted to end its relationship with Gateway Community Health due to serious financial and management issues. On June 18th, the Authority successfully and seamlessly transferred all existing Gateway consumers to Carelink. The goal of the transition was to ensure consumers received the services through the provider of their choice. The Authority and Gateway jointly developed a closeout process to slowly wind down operations. We worked together to ensure consumer needs were met, and any outstanding claims were paid no later than August 2016.

As directed by our Board, CareLink maintained a contractual relationship with existing Gateway providers through September 30, 2016 and honored the Gateway negotiated rates through the end of the contract period. Carelink and the Authority ensured that all providers met the quality standards established by both organizations. Simultaneously, Carelink began the process of credentialing and privileging Gateway providers who previously did not have a contract with Carelink. Again, we worked together to ensure all consumers had choice in their provider especially if their current provider was not a Carelink provider. The transition was seamless, with no impact on the consumer's quality of care.

Flint Water Crisis

Another successful achievement and partnership this past year is one forged with the City of Flint. The Authority Board understood that when one member of the family is hurting – we all hurt. The man-made crisis in Flint has had serious implications on our neighbors to the north. While we have tremendous needs here in Detroit-Wayne County, the Authority Board made a courageous decision to send $0.5 million to help the citizens of Flint as they deal with the real health and behavioral health issues this failure of government and the resulting water crisis has wrought on their community. Leadership matters, and the Authority stepped up to the plate when it counted.

At-Risk Youth Investment

The Authority's Children Initiatives Department funded thirteen (13) Community Mental Health (CMH) Contract Providers to deliver mental health services in a school based setting. The providers partnered with a total of seventy-five (75) schools throughout Wayne County and the Authority allocated over $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 of May, June and July, a total of sixty-three (63) workshops/trainings were provided to four hundred thirty six (436) parents and seven hundred forty two (742) teachers. Also, during the same time frame, three hundred sixty three (363) 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 second year in a row, the Authority funded a youth employment initiative through various organizations in Wayne County to employ young people over the summer. Last year, the Authority contributed nearly $1.5 million which supported seven hundred thirty one (731) youth being employed. This year the Authority funded over $1.7 million which employed over nine hundred fifty (950) youth. Funding was allocated to Alkebu-lan Village, City of Belleville, Canton Twp., Detroit City Connect, Downriver Community Conference, City of Dearborn, City of Hamtramck, City of Highland Park, City of Inkster, Redford Township, and City of Westland.

Direct Care Workers

Historically, direct care workers in Detroit-Wayne County were paid significantly less than Washtenaw, Oakland and Macomb Counties. The Authority did not receive adequate funding which was evidenced by the lower reported costs per unit across the entire service spectrum,

especially amongst the direct care worker staff. Due to increased Medicaid funding during the year, effective January 1, 2016, the Authority was able to pass along a dollar per hour increase to the Direct Care Workers which totaled $12.8 million in additional cost to the Authority. In addition, in September 2014 the State of Michigan raised its Minimum Wage however we did not provide an increase to our residential providers who may employ direct care workers who may have been earning the minimum wage. The Authority was able to make providers whole in FY16 with a retro-active payment equal to a 75 cent per hour wage increase with a total cost to the Authority of $13.3 million. The state law minimum wage for 2016 was $8.50/hr.; the minimum wage for direct care workers in our service network as required by Authority for January through September of 2016 was $9.15/hr.

Strategic Plan

The Authority Board of Directors and management team had been meeting with consumers, families, stakeholders and community partners over the last couple years to solicit feedback on how to best serve the people of Wayne County through our strategic plan. During the year, the Authority published its first Strategic Plan. The Plan outlines the mission, vision and values as well as market forces impacting the behavioral health system, and the proposed MCPN model. The Plan can be found at **http://www.dwmha.com/about-us/dwmha-authority-board/strategic-plan-information/**

The preparation of the basic financial statements was 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

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 as of and for the year ended September 30, 2016, 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, 2016, and the respective changes in its financial position and 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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 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 opinions on the financial statements that collectively comprise the Detroit Wayne Mental Health Authority's basic financial statements. The budgetary comparison schedule and transmittal letter are presented for purposes of additional analysis and are not a required part of the basic financial statements. The transmittal letter and budegtary information schedule 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 22, 2017 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 22, 2017

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's (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 the County.

On June 6, 2013, the Wayne County Commission approved Enabling Resolution 2013-392 (Resolution) creating the Authority assuming all assets and liabilities of the Agency. In addition, the Resolution allowed the County to retain a portion of the Authority's cash and investments. On October 1, 2014, the County would retain 50% of the Authority's cash balance ($31.7 million) decreasing each October 1 by 25% ($16 million) until October 1, 2016; if needed, the Authority has full access to the funds to meet its obligations.

The Authority does not provide direct services to the community; rather, it 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.

Legislative Changes

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 (PIHP). CAs were responsible for the administration of substance use disorders (SUD) services to Detroit and Wayne County residents; the prior Wayne County CAs were the City of Detroit (via Institute for Population Health) and SEMCA

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 (PIHPs) to participate in the Dual-Eligible demonstration pilot project (aka MI Health Link) that began in May 2015. 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 six (6) contracts with ICOs.

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 - Budgetary Comparison.

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 organization's financial position. The following depicts the Authority net position at September 30, 2016 and 2015, respectively:

	2016	2015
Current and other assets	$ 204,431,828	$ 206,676,285
Capital assets, net	15,183,999	9,060,254
Total Assets	219,615,827	215,736,539
Current liabilities	116,335,202	121,154,840
Notes Payable	7,181,162	3,035,249
Total Liabilities	123,516,364	124,190,089
Net Position:		
Invested in capital assets, net of related debt	7,541,509	6,025,005
Restricted	56,433,565	51,771,747
Unrestricted	32,124,389	33,749,698
Total net position	96,099,463	91,546,450

Current assets and other assets includes $16 million held in the County's pooled cash and investment account. In addition, $45.6 million is held in separate bank accounts for the Medicaid Internal Service Fund (ISF) and reported as restricted net position. The ISF is established for risk funding for Medicaid cost over-runs. The Authority has $116.8 million held in a depository with Flagstar Bank. The increase in capital assets of $6.0 million is primarily due to the construction of the new Authority headquarters (approximately $5.3 million).

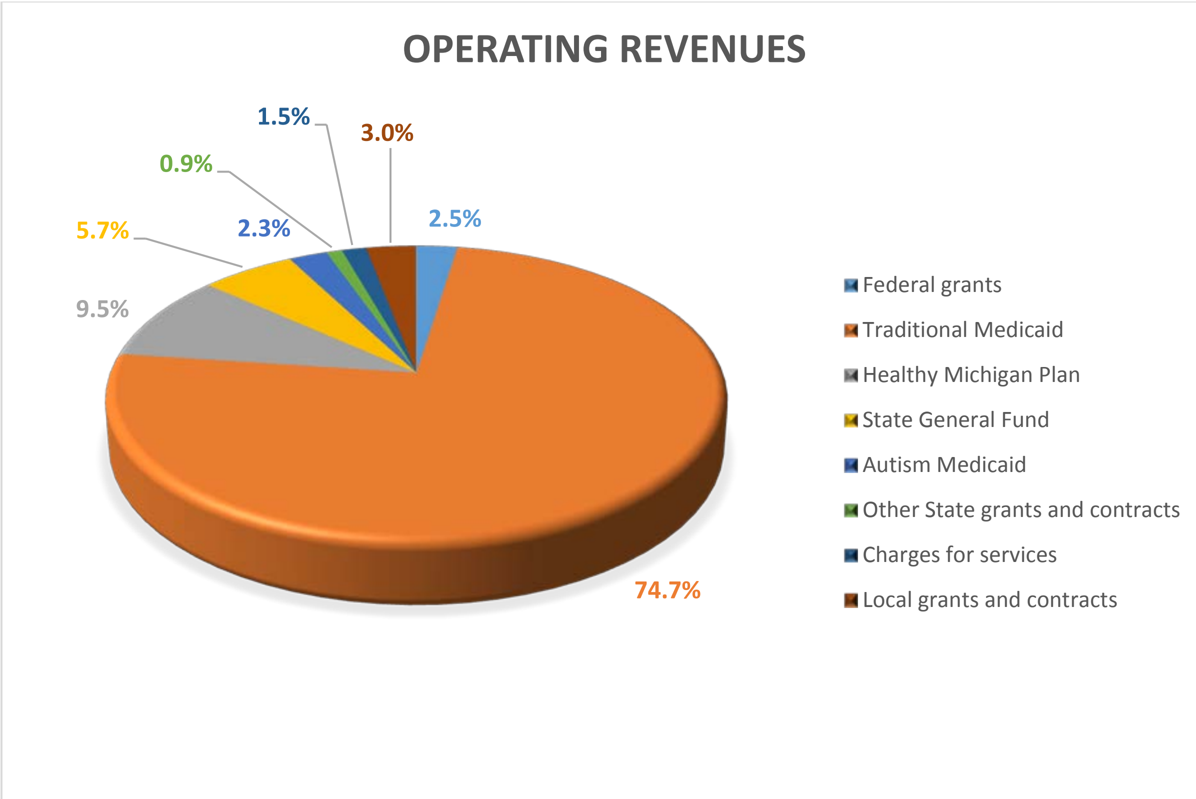
Current liabilities consists of accounts payable of $37.5 million to various service providers. Due to Wayne County represents $2.9 million due to the Wayne County Jails and Third Circuit Court for services provided. Unearned revenue includes traditional Medicaid, Healthy Michigan and MI

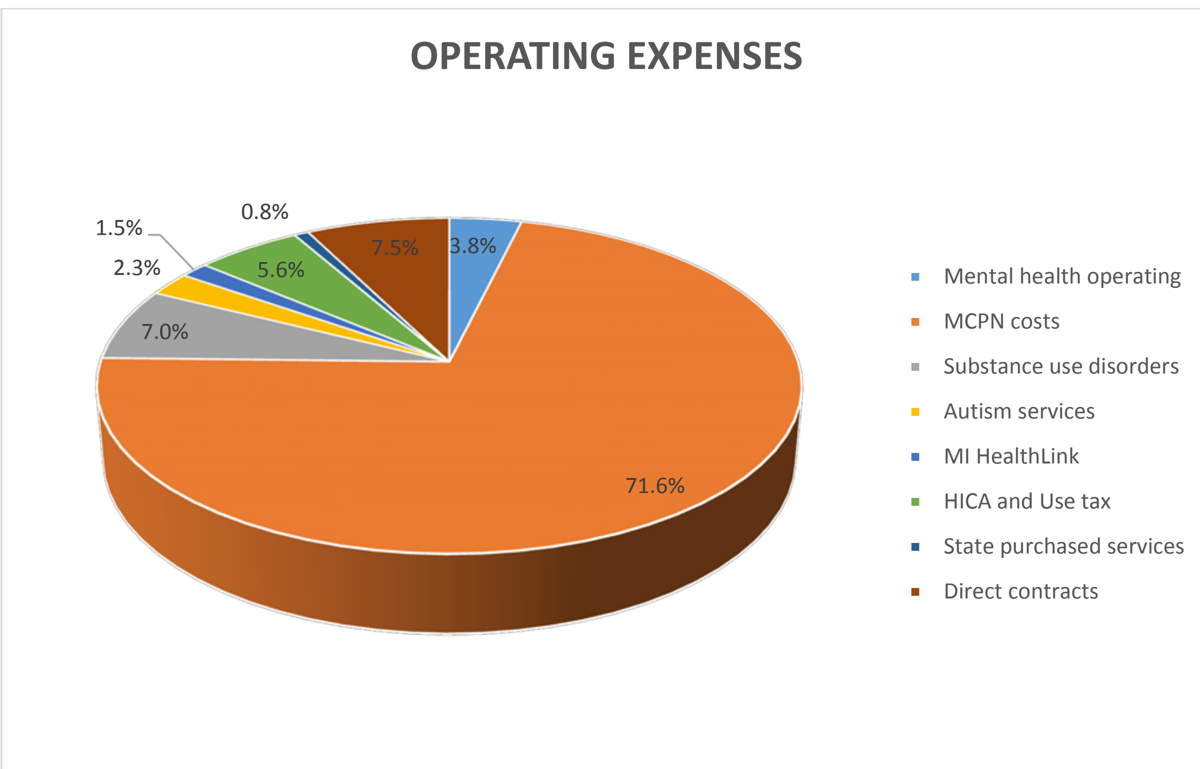
Health Link savings and State general fund savings and carryover of $14.6 million, $27.9 million, $11.8 million and $0.3 million, respectively. The unearned revenue increased by $11.3 million as compared to prior year. Due to other governmental units decreased by $5.7 million due to the Authority no longer responsible for paying the state portion of state facility costs; the Authority typically accrued two months of billings on average at $2.5 million per month.

Invested in capital assets, net of related debt, consists primarily of the purchase of the new 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 $7.6 million represents the amount of debt outstanding related to the construction of the building and office furnishing. Restricted net position consists of approximately $8.5 million in PA2 funds restricted for substance use disorders.

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.

Revenues	2016	2015
Federal grants and contracts	$ 18,039,204	$ 18,130,425
State grants and contracts	685,247,717	658,812,985
Local grants and contracts	22,012,854	21,600,573
Charges for services	10,790,731	2,741,935
Interest revenue	731,968	532,642
Contributions	33,046	-
Total revenues	736,855,520	701,818,560
Expenses		
Mental health operating	27,755,103	30,816,753
MCPN costs	524,495,514	466,010,399
Substance abuse services	50,865,493	43,932,424
Autism Services	16,811,303	9,469,720
MI HealthLink	10,820,026	2,695,334
HICA and Use Tax	40,857,590	38,406,290
State purchased services	5,575,372	29,187,689
Direct contracts	55,122,106	65,976,849
Total operating contracts	732,302,507	686,495,458
Income before special item	4,553,013	15,323,102
Special item	-	4,431,199
Change in net position	4,553,013	19,754,301
Net position - beginning of year	91,546,450	71,792,149
Net position - beginning of year	96,099,463	91,546,450


OPERATING REVENUES
1.5%
3.0%
0.9%
5.7%
2.3%
2.5%
9.5%
74.7%
Federal grants
Traditional Medicaid
Healthy Michigan Plan
State General Fund
Autism Medicaid
Other State grants and contracts
Charges for services
Local grants and contracts


OPERATING EXPENSES
0.8%
1.5%
7.5%
3.8%
2.3%
5.6%
7.0%
71.6%
Mental health operating
MCPN costs
Substance use disorders
Autism services
MI HealthLink
HICA and Use tax
State purchased services
Direct contracts

	Amended Budget	Actual	Increase (Decrease)
Operating Revenues			
Federal grants and contracts	$ 22,425,891	$ 18,039,204	$ (4,386,687)
State grants and contracts	695,879,439	685,247,717	(10,631,722)
Local grants and contracts	21,806,447	22,012,854	206,407
Charges for services	20,800,000	10,790,731	(10,009,269)
Total Operating Revenues	**760,911,777**	**736,090,506**	**(24,821,271)**
Operating Expenses			
Personnel	13,599,258	12,041,789	(1,557,469)
Fringe benefits	4,260,644	3,953,700	(306,944)
MCPN services	524,012,676	524,495,514	482,838
Direct contracts	74,875,918	60,697,478	(14,178,440)
Substance abuse services	46,392,411	50,865,493	4,473,082
Autism Services	19,760,682	16,811,303	(2,949,379)
MI HealthLink	19,250,000	10,820,026	(8,429,974)
HICA and Use Tax	44,044,640	40,857,590	(3,187,050)
Operating costs	14,051,046	11,003,094	(3,047,952)
Depreciation	1,182,302	756,520	(425,782)
Total Operating Expenses	**761,429,577**	**732,302,507**	**(29,127,070)**
Operating income (loss)	(517,800)	3,787,999	4,305,799
Non-operating Revenues			
Interest revenues	517,800	731,968	214,168
Income	-	4,519,967	4,519,967
Capital Contributions	-	33,046	33,046
Change in Net Position	-	4,553,013	4,553,013
Net Position - Beginning of year	91,546,450	91,546,450	-
Net Position - End of Year	**$ 91,546,450**	**$ 96,099,463**	**$ 4,553,013**

The $4.4 million decrease in federal grants is related to a reclassification of the federal portion of SUD block grants to State grants. State grants consists of $545.6 million, $80.9 million and $42.2 million in Medicaid, Healthy Michigan and State General Funds, respectively. 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 $4.3 million in PA2 funds received from Wayne County. Charges for services consist of the revenue received from MI Health Link program from the ICOs. The increase in State grants of $26.4 million is related to the increase in traditional Medicaid of $22.2 million as compared to prior year. The MI Health Link budget variance was merely a rough estimate as the program was newly implemented and the enrollment fluctuates.

Salaries and related fringes represent the salaries, benefits and pension costs for approximately one hundred sixty five (165) Authority employees and contractual staff. The variance is due to approximately twenty-seven (27) budgeted vacant positions.

MCPN costs represent the costs incurred by the five (5) MCPNs - Carelink Network, Consumer Link Network, Community Living Services, Gateway Health Systems and Integrated Care Alliance (formerly Synergy Partners). The amount includes up to 4.0% administrative costs.

The Authority enters into contracts directly with providers for certain services that are not administered through the MCPNs. Such services include categorical/ethnic services ($3.9 million); various programs through Wayne County (i.e. Jails, Clinic for Child Study) ($10.2 million); various federal programs (i.e. Housing and Urban Development (HUD), PASARR nursing home assessment services, System of Care and Transformation providers - $11.6 million); local portion of state facilities ($5.5 million); youth prevention and employment programs ($7.1 million); Crisis residential services (i.e. COPE $4.1 million) and Medicaid drawdown ($5.1 million). In addition, all Medicaid funds are subject to State of Michigan Use and HICA taxes which was approximately $40.8 million. The direct contract variance of $14.2 million is primarily attributed to the unspent Medicaid of $14.6 million carried over into the next year.

Operating costs include the Access Center ($6.9 million), and annual maintenance of our electronic Claims Record system ($1 million).

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	$ 23,752,886	$ 22,425,891	$ (1,326,995)
State grants and contracts	625,725,172	695,879,439	70,154,267
Local grants and contracts	20,986,447	21,806,447	820,000
Charges for services	20,800,000	20,800,000	-
Total Operating Revenues	691,264,505	760,911,777	69,647,272
Salaries and related fringes	$ 19,839,944	$ 17,859,902	$ (1,980,042.00)
MCPN services	436,011,205	524,012,676	88,001,471
Direct contracts	66,045,298	74,875,918	8,830,620
Substance abuse services	47,099,706	46,392,411	(707,295)
Autism Services	8,243,040	19,760,682	11,517,642
MI HealthLink	61,720,000	19,250,000	(42,470,000)
HICA and Use Tax	39,864,913	44,044,640	4,179,727
Operating costs	11,763,897	14,051,046	2,287,149
Depreciation	1,194,302	1,182,302	(12,000)
Total Operating Expenses	691,782,305	761,429,577	69,647,272
Investment earnings	517,800	517,800	-
Change in net position	$ -	$ -	$ -

The increase in state grants is primarily related to an increase in traditional Medicaid of $22.2 million and Autism Medicaid of $11.5 million. Effective January 1, 2016, the State of Michigan expanded the Autism benefit to ages six to twenty one (6-21). The adopted budget of the MHL pilot initially included the MCPN's expenses; however, the costs were reclassified to MCPN costs during the year. The increase in direct contracts is due to the restoration of an anticipated State General Fund reduction of $8.5 million; an increase in revenue of the same amount is also reflected in state grants and contracts.

Economic Factors and Next Year's Budget

- Effective January 1, 2017, the State of Michigan discontinued the 6% Use tax and increased the HICA tax from .75% to 1%.
- As a result of the State of Michigan increase to the Medicaid capitation payment by approximately $20 million for the fiscal year ended September 30, 2017, effective October 1, 2016, the Authority increased targeted rates for Direct Care Workers (DCW) by another $1 per hour for an estimated total including employer related costs of $16.0 million for the fiscal year; the minimum wage of a Detroit Wayne County DCW is $10.15 per hour.

- MDHHS is moving forward with obtaining pilot projects for the 298 initiative. This initiative will have a significant impact on how PIHPs will operate in the future.
- MDHHS established a workgroup amongst the CMHSPs to review and make recommendations on how State General Fund will be allocated between the Community Mental Health Services Program (CMHSPs); the workgroup's recommendation included up to a $17 million reduction to the Authority appropriation. MDHHS has not implemented the recommendation; however, the Authority anticipates reductions in the near future.

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

Detroit Wayne Mental Health Authority

Statement of Net Position
September 30, 2016

Assets	
Current assets:	
Cash and cash equivalents (Note 2)	$ 176,321,590
Receivables (Note 4):	
Accounts receivable	8,988,365
Due from other governmental units	16,833,026
Prepaid expenses	171,300
Total current assets	202,314,281
Noncurrent assets:	
Restricted assets (Note 8)	2,117,547
Capital assets (Note 5):	
Assets not subject to depreciation	540,000
Assets subject to depreciation	14,643,999
Total noncurrent assets	17,301,546
Total assets	219,615,827
Liabilities	
Current liabilities:	
Accounts payable	37,504,286
Due to other governmental units	20,066,118
Due to Charter County of Wayne	2,922,510
Accrued wages and benefits	86,583
Unearned revenue (Note 9)	54,617,364
Compensated absences	677,013
Current portion of long-term debt (Note 6)	461,328
Total current liabilities	116,335,202
Noncurrent liabilities - Long-term debt (Note 6)	7,181,162
Total liabilities	123,516,364
Net Position	
Net investment in capital assets	7,541,509
Restricted:	
Restricted for substance abuse disorder PA2 (Note 10)	8,504,009
Restricted for risk financing - Medicaid ISF (Note 10)	47,929,556
Unrestricted	32,124,389
Total net position	**$ 96,099,463**

Detroit Wayne Mental Health Authority

Statement of Revenue, Expenses, and Changes in Net Position
Year Ended September 30, 2016

Operating Revenue	
State grants and contracts	$ 685,247,717
Charges for services	10,790,731
Local grants and contracts	22,012,854
Federal grants and contracts	18,039,204
Total operating revenue	736,090,506
Operating Expenses	
Personnel	12,041,789
Fringe benefits	3,953,700
Autism services	16,811,303
MI Health Link	10,820,026
Operating costs	11,003,094
Substance disorder services	50,865,493
MCPN services	524,495,514
HICA and use tax	40,857,590
Direct contracts	60,697,478
Depreciation	756,520
Total operating expenses	732,302,507
Operating Income	3,787,999
Nonoperating Revenue - Investment income	731,968
Change in Net Position Before Capital Contributions	4,519,967
Capital Contributions	33,046
Change in Net Position	4,553,013
Net Position - Beginning of year	91,546,450
Net Position - End of year	**$ 96,099,463**

Detroit Wayne Mental Health Authority

Statement of Cash Flows
Year Ended September 30, 2016

Cash Flow from Operating Activities	
Cash received from state and federal sources	$ 724,694,098
Cash received from local sources	24,651,794
Payments to providers and suppliers	(730,358,023)
Payments to employees	(16,610,717)
Net cash provided by operating activities	2,377,152
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(6,847,219)
Proceeds from issuance of long-term debt	4,742,754
Payments on long-term debt	(135,513)
Net cash used in capital and related financing activities	(2,239,978)
Cash Flows from Investment Activities - Interest received on investments	731,968
Net Increase in Cash and Cash Equivalents	869,142
Cash and Cash Equivalents - Beginning of year	177,569,995
Cash and Cash Equivalents - End of year	**$ 178,439,137**
Balance Sheet Classification of Cash and Cash Equivalents	
Cash and investments	$ 176,321,590
Restricted cash	2,117,547
Total cash and cash equivalents	**$ 178,439,137**
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	$ 3,787,999
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	756,520
Changes in assets and liabilities:	
Accounts receivable	3,937,569
Due from other governmental units	(764,918)
Accounts payable	765,719
Prepaid and other assets	(59,052)
Due to other governmental units	(5,762,562)
Due to County Charter of Wayne	(11,020,963)
Accrued wages and benefits	(148,648)
Unearned revenue	11,352,068
Compensated absences	(466,580)
Net cash provided by operating activities	**$ 2,377,152**

Note 1 - Summary of Significant Accounting Policies

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 Wayne County residents such as, but not limited to, inpatient, outpatient, partial day, residential, case management, prevention, consultation and education, and emergeny telephone services for the mentally ill and developmentally disabled. The Authority was previously a department within the County of Wayne, Michigan. The Authority is a separate legal entity and is not considered a related organization or component unit of Wayne 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 and SEMCA, referred to as 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, six recommended by the mayor of the City of Detroit, Michigan, and six recommended by the Wayne 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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").

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.

Report Presentation

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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 is 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 purposes 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.

Specific Balances and Transactions

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.

A portion of the Authority's cash is invested and allocated as part of a pooled county cash and investments fund. Interest on pooled investments is allocated to the Authority based on average investment balances. Further information on the measurement of fair value of such investments is disclosed in the county's Comprehensive Annual Financial Report (CAFR).

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Due from Other Governmental Units - Accounts receivable represents 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, 2016. 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 costs 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 estimated fair market 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:

Capital Asset Class	Lives
Buildings	20
Office equipment	5-7
Vehicles	5-7
Software	10

Restricted Asset - Restricted asset information is included in Note 8.

Due to Charter County of Wayne - Amounts due to the county include amount owed to the jails, Third Circuit Court, and Children and Family Services for services rendered.

Accounts Payable and Due to Other Governmenal Units - Accounts payable balances include final expenditures due to service providers for the current fiscal year. Due to other governments represent amounts owed to the State of Michigan.

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - Employees earn vacation and sick leave benefits based, in part, on length of service. Vacation pay is fully vested when earned and sick pay vests upon completion of two years of service. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick 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 $626.5 million and $42.2 million, respectively, for the year ended September 30, 2016. The remaining balance was comprised 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.

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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 period. Actual results could differ from those estimates.

Note 2 - 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 currently designated two 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 $162,306,094 of bank deposits (certificates of deposit, 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. At year end, the Authority had $15,809,395 of cash held within pooled cash funds at Wayne County.

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.

	Fair Value	1-5 Years
Municipal Bonds	$ 450,229	$ 450,229
Federal Home Loan Meeting Corporation Term Notes	984,941	984,941
Federal National Meeting Association Term Notes	270,343	270,343
Negotiable Certificates of Deposit	500,685	500,685
Total	$ 2,206,198	$ 2,206,198

Note 2 - 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	$ 450,229	AA-	S&P
Federal Home Loan Meeting Corporation Term Notes	984,941	AA+	S&P
Federal National Meeting Association Term Notes	270,343	AA+	S&P
Negotiable Certificates of Deposit	500,685	N/R	N/A
Total	$ 2,206,198		

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 forty percent (40%) of the total investment portfolio will be invested in a single security type, and no more than forty percent (40%) of the total investment portfolio shall be invested in assets issued or managed by a single financial institution. At September 30, 2016, the Authority's has approximately 45 percent of the investment portfolio invested in Federal Home Loan Mortgage Corporation notes.

Note 3 - Fair Value Measurement

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 asset. 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 the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above 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 or liability.

Note 3 - Fair Value Measurement (Continued)

The Authority has the following recurring fair value measurements as of September 30, 2016:

Assets Measured at Fair Value on a Recurring Basis

	Fair Value Measurement Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Municipal Bonds	$ -	$ 450,229	$ -
Federal Home Loan Meeting Corporation Term Notes	-	984,940	-
Federal National Meeting Association Term Notes	-	270,343	-

The fair value of the Authority's investments at September 30, 2016 were 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 4 - Accounts Receivable and Due From Other Governmental Units

Accounts receivable represent balances due from the 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 accounts receivable balance at September 30, 2016 was approximately $8.9 million, of which approximately $1.4 million is due from MCPNs for costs settlements, $4.7 million is due from ICOs for dual eligble programs, and $2.8 million is due from Wayne County for Public Act 2 funds.

The due from other governmental units balance at September 30, 2016 was approximately $16.8 million. This consists of $16 million due from the State of Michigan and $0.8 million due from the federal government.

Note 5 - Capital Assets

Capital asset activity of the Authority was as follows:

Business-type Activities	Balance October 1, 2015	Reclassifications	Additions	Balance September 30, 2016
Capital assets not being depreciated:				
Land	$ 540,000	$ -	$ -	$ 540,000
Construction in progress	3,393,894	(3,393,894)	-	-
Subtotal	3,933,894	(3,393,894)	-	540,000
Capital assets being depreciated:				
Buildings and improvements	2,544,432	3,393,894	5,955,315	11,893,641
Computers	626,332	-	177,410	803,742
Vehicles	-	-	33,046	33,046
Office equipment	730,454	-	686,115	1,416,569
Software	2,318,480	-	28,378	2,346,858
Subtotal	6,219,698	3,393,894	6,880,264	16,493,856
Accumulated depreciation:				
Buildings and improvements	57	-	245,105	245,162
Computers	187,718	-	133,203	320,921
Vehicles	-	-	1,267	1,267
Office equipment	23,664	-	139,930	163,594
Software	881,898	-	237,015	1,118,913
Subtotal	1,093,337	-	756,520	1,849,857
Net capital assets being depreciated	5,126,361	3,393,894	6,123,744	14,643,999
Net capital assets	$ 9,060,255	$ -	$ 6,123,744	$ 15,183,999

Note 6 - Long-term Debt

On August 28, 2014, the Authority signed a seven-year term and construction notes payable (20-year amortization period) with Flagstar Bank totaling $6,960,000 for the construction phase on the new Authority headquarters. 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. As of September 30, 2016, 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	2023	3.3%-3.8%	$ 3,035,249	$ 4,742,754	$ 135,513	$ 7,642,490	$ 461,328
Accumulated compensated absences			1,143,593	1,228,333	1,694,913	677,013	677,013
Total			$ 4,178,842	$ 5,971,087	$ 1,830,426	$ 8,319,503	$ 1,138,341

Note 6 - Long-term Debt (Continued)

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

Year Ending September 30	Principal	Interest	Total
2017	$ 461,328	$ 274,837	$ 736,165
2018	476,958	259,207	736,165
2019	494,520	241,645	736,165
2020	512,105	224,060	736,165
2021	462,456	204,785	667,241
Thereafter	5,235,123	1,578,524	6,813,647
Total	$ 7,642,490	$ 2,783,058	$ 10,425,548

Note 7 - 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 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 8 - Restricted Assets

Restricted cash balance of $2,117,547 is maintained per the Authority's construction loan agreements.

Note 9 - Unearned Revenue

Unearned revenue includes amounts of $54,617,364 of MDHHS contract funding ($14,618,251 of traditional Medicaid savings, $27,949,557 of Healthy Michigan Medicaid savings, $11,764,467 of MI Health Link, and $285,089 of General Fund carryforward) that was unearned at September 30, 2016, and will be carried over to be expended in the subsequent fiscal year.

Note 10 - 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 Spetember 30, 2016, the activity of the net position restricted for risk financing (Medicaid ISF) was as follows:

	Medicaid ISF
Beginning balance	$ 45,318,381
Contributions	2,379,948
Interest revenue	231,227
Ending balance	$ 47,929,556

The Authority also reported $8,504,009 in funds restricted for substance use disorder services as of September 30, 2016.

Note 11 - Defined Contribution 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.

The employee and employer contributions for the defined contribution plan were $230,220 and $918,063, respectively, for the year ended September 30, 2016.

Note 12 - 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 1, 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.

Three MCPNs have requested a contract modification to increase their administrative expense in accordance with a board resolution passed on March 15, 2017 whereby one MCPN contract was modified. As of the date of the report, there has been no lawsuit filed. The amount, if any, of expenses which may arise as result of these claims cannot be determined at this time and has not been recorded in the financial statements.

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

Detroit Wayne Mental Health Authority

Other Supplemental Information
Statement of Revenue, Expenses, and Changes in Net Position
Budgetary Comparison
Year Ended September 30, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Operating Revenue				
State grants and contracts	$ 625,725,172	$ 695,879,439	$ 685,247,717	$ (10,631,722)
Charges for services	20,800,000	20,800,000	10,790,731	(10,009,269)
Local grants and contracts	20,986,447	21,806,447	22,012,854	206,407
Federal grants and contracts	23,752,886	22,425,891	18,039,204	(4,386,687)
Total operating revenue	691,264,505	760,911,777	736,090,506	(24,821,271)
Operating Expenses				
Personnel	13,480,550	13,599,258	12,041,789	1,557,469
Fringe benefits	6,359,394	4,260,644	3,953,700	306,944
Autism services	8,243,040	19,760,682	16,811,303	2,949,379
MI Health Link	61,720,000	19,250,000	10,820,026	8,429,974
Operating costs	11,763,897	14,051,046	11,003,094	3,047,952
Substance disorder services	47,099,706	46,392,411	50,865,493	(4,473,082)
MCPN services	436,011,205	524,012,676	524,495,514	(482,838)
HICA and use tax	39,864,913	44,044,640	40,857,590	3,187,050
Direct contracts	66,045,298	74,875,918	60,697,478	14,178,440
Depreciation	1,194,302	1,182,302	756,520	425,782
Total expenditures	691,782,305	761,429,577	732,302,507	29,127,070
Operating Income	(517,800)	(517,800)	3,787,999	4,305,799
Nonoperating Revenue				
Investment income	517,800	517,800	731,968	214,168
Capital Contributions	-	-	33,046	33,046
Change in Net Position	**$ -**	**$ -**	**$ 4,553,013**	**$ 4,553,013**