



**KALAMAZOO COMMUNITY**  
**Mental Health**  
**& Substance Abuse**  
**Services**

Year Ended  
September 30,  
2017

Financial  
Statements and  
Single Audit Act  
Compliance

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Position	14
Statement of Revenues, Expenses and Changes in Fund Net Position	15
Statement of Cash Flows	16
Notes to Financial Statements	19
Required Supplementary Information	
Defined Benefit Pension Plan:	
Schedule of the Authority's Proportionate Share of the Net Pension Asset	34
Schedule of Contributions	35
Retiree Healthcare Plan:	
Schedule of Funding Progress	36
Schedule of Employer Contributions	36
Single Audit Act Compliance	
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	39
Schedule of Expenditures of Federal Awards	40
Notes to Schedule of Expenditures of Federal Awards	41
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	45
Schedule of Findings and Questioned Costs	47
Summary Schedule of Prior Audit Findings	50



**INDEPENDENT AUDITORS' REPORT**

March 22, 2018

Board of Directors  
Kalamazoo Community Mental Health and  
Substance Abuse Services  
Kalamazoo, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of *Kalamazoo Community Mental Health and Substance Abuse Services* (the "Authority"), a component unit of Kalamazoo County, Michigan, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the 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.

***Independent Auditors' Responsibility***

Our responsibility is to express an opinion 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 auditors' 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 opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Community Mental Health and Substance Abuse Services as of September 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Required Supplementary Information*

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

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

*Rehmann Loborn LLC*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Management's Discussion and Analysis

This section of Kalamazoo Community Mental Health and Substance Abuse Services' (the "Authority") annual financial report presents management's discussion and analysis (MD&A) of activities and financial performance during the fiscal year ended September 30, 2017. Please review it in conjunction with the independent auditors' report, the financial statements, the notes to the financial statements, and the supplementary information presented in this financial report.

Kalamazoo Community Mental Health and Substance Abuse Services is an Authority established by the State of Michigan and Kalamazoo County, Michigan, to operate, control, and manage an integrated behavioral healthcare and substance abuse system in order to better serve its residents. The mission of the Authority is to promote and provide mental health, intellectual-developmental disability, and substance abuse resources that empower people to succeed. The vision of the Authority is to provide a welcoming and diverse community partnership which collaborates and shares effective resources that support individuals and families to be successful through all phases of life.

The County of Kalamazoo Board of Commission appoints the board members governing the Authority. The County also provides annual financial support to the Authority, and the Authority is considered a component unit for reporting purposes in the audit report of Kalamazoo County, Michigan.

As of January 1, 2014 the Authority transferred its PIHP and substance abuse coordinating agency responsibilities to a newly established regional oversight agency known as Southwest Michigan Behavioral Health ("SWMBH"). Fiscal year 2015 was the first full year in which the Authority is operating in this manner.

The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements audited by Rehmann Robson for the year ended September 30, 2017. This MD&A contains information on the basic financial statements of the Authority together with any required explanation which would be essential to acquire a full understanding of the data contained therein.

### Financial Position Summary

Analysis of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position over time serves as a useful indicator of the Authority's financial position. The Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,886,347 for the period ended September 30, 2017. This represents a decrease of \$1,764,201 from the prior period ended September 30, 2016, when the Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$22,650,548.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Management's Discussion and Analysis

A condensed summary of the Authority's statement of net position is shown below:

	Net Position			
	2017	2016	Change	% Change
<b>Assets</b>				
Current and other assets	\$20,250,459	\$19,510,014	\$ 740,445	3.8%
Capital assets, net	10,162,196	10,564,488	(402,292)	-3.8%
<b>Total assets</b>	<u>30,412,655</u>	<u>30,074,502</u>	<u>338,153</u>	1.1%
<b>Deferred outflows of resources</b>	<u>5,986,578</u>	<u>9,431,097</u>	<u>(3,444,519)</u>	-36.5%
<b>Liabilities</b>				
Long-term liabilities	6,434,492	6,574,472	(139,980)	-2.1%
Other liabilities	8,428,600	9,862,165	(1,433,565)	-14.5%
<b>Total liabilities</b>	<u>14,863,092</u>	<u>16,436,637</u>	<u>(1,573,545)</u>	-9.6%
<b>Deferred inflows of resources</b>	<u>649,794</u>	<u>418,414</u>	<u>231,380</u>	55.3%
<b>Net position</b>				
Net investment in capital assets	4,796,639	5,003,931	(207,292)	-4.1%
Restricted	11,934,193	13,646,946	(1,712,753)	-12.6%
Unrestricted	4,155,515	3,999,671	155,844	3.9%
<b>Total net position</b>	<u>\$20,886,347</u>	<u>\$22,650,548</u>	<u>\$ (1,764,201)</u>	-7.8%

The amount of the Authority's net investment in capital assets at September 30, 2017 is \$4,796,639 or 23.0% of total net position. Unrestricted net position of \$4,155,515 represents 19.9% of total net position. The remaining net position of \$11,934,193, or 57.1% represents amounts held in trust for payment of pension benefits in excess of the actuarial accrued liability for providing such benefits. The decrease in deferred outflows is the result of changes in the deferrals related to the pension plan concerning the difference between projected and actual earnings. The significant decrease in other liabilities was due to an amount owed back to the State at the prior year end, related to the 2014 settlement with Southwest Michigan Behavioral Health (SWMBH) that was collected during 2017. This decrease was partially offset by an increase in unearned revenue related to the receipt of funds from SWMBH from the Performance Bonus Incentive Pool during 2017. The increase in the deferred inflows is related to changes in the County pension plan.

## KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

### Management's Discussion and Analysis

The following summarizes the revenues, expenses, and change in net position for the years ended September 30, 2017 and 2016:

	Change in Net Position			
	2017	2016	Change	% Change
<b>Operating revenues</b>				
Medicaid	\$68,606,181	\$64,167,529	\$ 4,438,652	6.9%
Federal and state grants	7,236,191	6,831,105	405,086	5.9%
Charges for services	2,119,144	2,088,669	30,475	1.5%
PA2 funds	155,400	226,320	(70,920)	-31.3%
Other	348,615	136,400	212,215	155.6%
<b>Total operating revenues</b>	<b>78,465,531</b>	<b>73,450,023</b>	<b>5,015,508</b>	<b>6.8%</b>
<b>Operating expenses</b>				
Mental illness adult population	28,361,079	25,264,003	3,097,076	12.3%
Intellectual and developmental disabilities population	28,387,931	28,112,327	275,604	1.0%
Youth services	11,431,290	10,368,341	1,062,949	10.3%
Multipopulation	3,533,013	3,303,048	229,965	7.0%
Management and general	9,987,152	10,025,933	(38,781)	-0.4%
<b>Total expenses</b>	<b>81,700,465</b>	<b>77,073,652</b>	<b>4,626,813</b>	<b>6.0%</b>
<b>Operating loss</b>	<b>(3,234,934)</b>	<b>(3,623,629)</b>	<b>388,695</b>	<b>0.8%</b>
<b>Nonoperating revenues (expenses)</b>				
County appropriation	1,618,000	1,550,400	67,600	4.4%
Loss on disposal of capital assets	(6,171)	(29,735)	23,564	-79.2%
Interest revenue	8,654	10,844	(2,190)	-20.2%
Interest expense	(149,750)	(151,419)	1,669	-1.1%
Capital contributions	-	256,166	(256,166)	100.0%
<b>Total nonoperating revenues (expenses)</b>	<b>1,470,733</b>	<b>1,636,256</b>	<b>(165,523)</b>	<b>-10.1%</b>
<b>Change in net position</b>	<b>(1,764,201)</b>	<b>(1,987,373)</b>	<b>223,172</b>	<b>-9.3%</b>
<b>Net position, beginning of year</b>	<b>22,650,548</b>	<b>24,637,921</b>	<b>(1,987,373)</b>	<b>-8.1%</b>
<b>Net position, end of year</b>	<b>\$20,886,347</b>	<b>\$22,650,548</b>	<b>\$ (1,764,201)</b>	<b>-7.8%</b>

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Management's Discussion and Analysis

### Financial Operations Highlights

- Medicaid revenue increased by approximately \$4.4 million because the contract between Southwest Michigan Behavioral Health (SWMBH) and the Authority is a cost settled contract. The increase is related primarily to an increase in costs for residential and community inpatient services.
- The increase in mental illness adult population expenses relates to increases in residential and community inpatient services.
- The increase in youth services expenses relates to increases in Autism services.
- The Authority's contract reconciliation with the State of Michigan for 2017 identified \$163,837 of State General Fund savings available for fiscal year 2018.

### Capital Assets and Long-term Debt

Capital Assets. As of September 30, 2017, the Authority had \$10.2 million invested in a variety of capital assets as reflected in the following schedule:

	Capital Assets	
	2017	2016
Not being depreciated:		
Land	\$ 751,097	\$ 751,097
Work in progress	58,964	37,870
Being depreciated:		
Buildings and improvements	11,532,983	11,455,505
Equipment and furnishings	2,141,696	2,385,353
Vehicles	27,000	27,000
Accumulated depreciation	(4,349,544)	(4,092,337)
<b>Total capital assets, net</b>	<b>\$10,162,196</b>	<b>\$ 10,564,488</b>

For more information about the Authority's capital assets, see note 3.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Management's Discussion and Analysis

Long-term Debt. At the end of the current fiscal year, the Authority had total debt outstanding of \$6,434,492. The decrease is the result of making debt payments in accordance with amortization schedules.

	Long-term Debt	
	2017	2016
Contracts payable	\$ 4,900,000	\$ 5,000,000
Note payable	310,000	405,000
Premium on contracts payable	155,557	155,557
Compensated absences	1,068,935	1,013,915
<b>Total long-term debt</b>	<b>\$ 6,434,492</b>	<b>\$ 6,574,472</b>

For more information about the Authority’s long-term debt, see note 4.

### Factors Impacting the Future

There are three major factors that will adversely affect the future of Kalamazoo Community Mental Health and Substance Abuse Services. These include the following:

- Section 298 of the Fiscal Year 2018 Michigan State Budget bill;
- Milliman SFY 2018 Development of Mental Health Rates
- National and State Shortage of Mental Health Professionals and Direct Care Wages

#### *Section 298 of Public Act 107 of 2017*

Section 298 (3) (Public Act 107 of 2017) puts forward the following language: “...the department shall implement up to 3 pilot projects to achieve fully financially integrated Medicaid behavioral health and physical health benefit and financial integration demonstration models. These demonstration models shall use single contracts between the state and each licensed Medicaid Health Plan that is currently contracted to provide Medicaid services in the geographic area of the pilot project. The department shall ensure that the pilot projects described in this subsection are implemented in a manner that ensures at least all of the following: (a) that allows the CMHSP in the geographic area of the pilot project to be a provider of behavioral health supports and services; (b) that any changes made to the Medicaid waiver or Medicaid state plan to implement the pilot projects described in this subsection must only be in effect for the duration of the pilot projects described in this subsection; (c) that the project is consistent with the stated core values as identified in the final report of the workgroup described in subsection (2); and that updates are provided to the medical care advisory council, behavioral health advisory council, and developmental disabilities council.”

The budget bill further states that “each pilot project shall be designed to last at least two years..., and it is the intent of the legislature that the primary purpose of the pilot projects and demonstration models is to test how the state may better integrate behavioral and physical health delivery systems in order to improve behavioral and physical health outcomes, maximize efficiencies, minimize unnecessary costs, and achieve material increases in behavioral health services without increases in overall Medicaid spending.”

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Management's Discussion and Analysis

Subsequent to the promulgation of the budget bill, the Michigan Department of Health and Human Services (MDHHS) issued a Request for Information (RFI) to interested Community Mental Health Services Programs (CMHSPs), to provide a plan for how they will enter into pilots designed to test “fully financially integrated Medicaid behavioral health and physical benefit and financial integration demonstration models.” The specifications of the RFI is mainly an economic rather than a clinical model for integration to test the feasibility and effectiveness of a “carve-in” or privatization of the Medicaid Managed Specialty Supports and Services program. Evidence that supports this assertion is found in a proposed, yet failed, amendment to Section 234 of the Fiscal Year 2018 Michigan State Budget bill (Section 298 of Public Act 107 of 2017), which stated the following:

*The demonstration models are based on a goal to achieve total Medicaid benefit and financial integration by September 30, 2020 that will rely on a single contracting model between the State of Michigan and licensed Health Plans, regulated by both the Department of Financial and Insurance Services to assure financial viability and the Department to assure overall programmatic performance.*

The overall intent of the Full Financial Integration pilots is to eventually eliminate the public Community Mental Health Services Programs designated Prepaid Inpatient Health Plans, and carve-in the Managed Medicaid Behavioral Health and Intellectual or Developmental Disability Specialty Supports and Services Program under the management of licensed Medicaid Health Plans. This represents a major threat for eventually dismantling the public community mental health system in Michigan.

On March 9, 2018, MDHHS announced the 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 the following three sites:

- Pilot #1: Muskegon County CMH (dba HealthWest) and West Michigan Community Mental Health
- Pilot #2: Genesee Health System
- Pilot #3: Saginaw County Community Mental Health Authority

It is our belief that the assumption by a CMHSP of managed care responsibilities from a non-governmental entity (e.g., Medicaid Health Plan) creates the potential for significant tort and contractual/financial exposure. Potential tort exposure arises by virtue of certain responsibilities assumed by the CMHSP that may impact upon the availability or quality of statutorily mandated behavioral health and intellectual or developmental disability Managed Medicaid specialty supports and services (i.e., quality assurance, provider credentialing, access to services, and utilization review and management). Potential contractual/financial exposure is created by virtue of service contracts entered into by the CMHSP [and possibly the MHP], and by any other financial obligations incurred in order to establish and operate the proposed fully financially integrated managed care pilot program. The fact that MHP “managed care” contracts intends to reimburse CMHSPs under a risk-based payment methodology causes inherent financial risk assumption not only for the CMHSP, but also their creating counties.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Management's Discussion and Analysis

It is also our belief that before any CMHSP and MHP participates in any model of the 298 pilots (i.e., Kent County demonstration model or Full Financial Integration), each should carefully consider the risks associated with the rapidly changing state and federal political environments, that are threatening to destabilize the health care industry in the United States. For example, by ending the tax penalty for people who do not have health insurance coverage, beginning in 2019, it is predicted that more people will have to purchase the full cost of insurance. We do not know what that will ultimately mean for the Healthy Michigan Plan or the Medicaid specialty services program. Relatedly, during Fiscal Year 2017, Governor Rick Snyder announced that if the Healthy Michigan Plan is eliminated as a result of actions to repeal and replace the ACA, the cost for Michigan to sustain the program would be \$800 million. Without the federal enhanced matching funds, the Governor declared that the state would not be able to support this program. Nick Lyon, Director, MDHHS restated the Governor's claim during his interview at the October 2017 Community Mental Health Association Fall Conference in Traverse City. He further advised the audience that it is uncertain whether the \$200 million that was removed from the CMHSP general fund appropriation to support Healthy Michigan would be restored if the Healthy Michigan Plan is eliminated. Interestingly enough, Mr. Lyon in that same interview encouraged the implementation of innovative integration pilots in addition to the ones proposed under Section 298. Kalamazoo Community Mental Health and Substance Abuse Services followed his advice, and partnered with Priority Health Choice, Inc. (a licensed Michigan Medicaid Health Plan) and Southwest Michigan Behavioral Health (a CMHSP created Regional Entity and designated Prepaid Inpatient Health Plan for Southwest Michigan) to respond to MDHHS's RFI by proposing an alternative Integrated Care Coordination model to the Full Financial Integration pilot model. Our proposal was denied approval for not meeting the following mandatory minimum requirements:

- The applicant has submitted a signed memorandum of support (Attachment A) from at least fifty-percent of the Medicaid Health Plans (MHPs) within the proposed pilot region, which demonstrates their engagement in pre-planning activities; and
- The applicant has submitted a plan demonstrating full financial integration as required under Section 298 of Public Act 107 of 2017.

### *Milliman SFY 2018 Development of Mental Health Rates*

#### Development of Autism Rates

There is concern that the Milliman unit/encounter data rates for ABA (autism services) that are used to set the Fiscal Year 2018 autism payments are too low and do not reflect Michigan's labor market BCBA nor related clinicians. This underpricing of the service, in the rates, causes the Prepaid Inpatient Health Plans (PIHPs), Community Mental Health Services Programs (CMHSPs), and other providers to use Medicaid funds intended for other populations to subsidize the real costs of providing autism services.

#### IMD Methodology for Rates

The IMD issue is resolved for a segment of the PIHP/CMHSP concerns (that Medicaid and Healthy Michigan Plan [Medicaid expansion] dollars can be used for the full IMD stay, beyond 15 days, and for all other Medicaid/HMP services provided to the enrollee during the month of the longer than 15 day IMD stay), but there is still to be resolved the need for those Medicaid/HMP expenditures to be reflected in the costs of services that are used in future year's rebasing). Although, this may have been a local level problem in the past, now that past utilization is not part of the geographic factor for any PIHP, the loss of these expenses, in future year's rate-setting, will have statewide, rather than just local implications. Milliman's change from an experience rating to community rating methodology diminishes the ability to capture real expenditures in future year's rate-basing.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Management's Discussion and Analysis

Revenue Loss Due to Inappropriate Movement of the Disabled, Aged, and Blind (DAB) Medicaid Enrollees to (Temporary Assistance to Needy Families (TANF) and Healthy Michigan Plan (HMP)

The serious impact of the inappropriate movement of Medicaid enrollees from DAB to TANF or HMP status, is costing the CMHSP/PIHP Provider system approximately \$20 million per year in lost revenues. The theories supporting this claim is that (1) enrollees desire to retain Medicaid coverage through HMP without having to engage in the lengthy and complex Medicaid disability determination process; (2) the desire by Medicaid spend down enrollees to avoid the spend down process by moving to HMP; and (3) the ease for MDHHS enrollment staff for enrolling beneficiaries into the TANF or HMP programs rather than DAB. The inappropriate movement from DAB to HMP represents a 90% rate reduction per enrollee.

The inappropriate movement from DAB to TANF represents a 95% rate reduction per enrollee. The TANF and HMP behavioral health and intellectual or developmental disability services benefits are equivalent to the specialty supports and services benefits afforded to DAB beneficiaries enrolled in the Medicaid Managed Specialty Supports and Services Program. In other words, although the capitation payment levels are substantially reduced for the TANF and HMP, the benefit package remains the same. More disturbing, is that beginning in April 2018, non-disabled Medicaid beneficiaries will move from HMP to the commercial market place and will lose their specialty services benefits.

The Rehmann Fiscal Years 2016 to 2017, Prepaid Inpatient Health Plan Revenues Analysis Disabled, Aged, Blind, issued on November 29, 2017 estimates the combined impact of the inappropriate movement of DABs to TANF and HMP to be \$97,597,336. If not corrected, this will continue to have a major adverse financial impact on KCMHSAS and other Michigan CMHSPs in the future.

### *National and State Shortage of Mental Health Professionals and Direct Care Wages*

The behavioral health workforce functions in a wide range of prevention, health care, and social service settings. They include public and private prevention programs; community-based and inpatient treatment programs; primary care health delivery offices; systems and hospitals; emergency rooms; criminal justice systems; and school-based or higher education institutions. This workforce includes, but is not limited to: psychiatrists and other physicians, psychologists, social workers, advanced practice psychiatric nurses, marriage and family therapists, certified prevention specialists, addiction counselors, mental health/professional counselors, psychiatric rehabilitation specialists, psychiatric aides and technicians, paraprofessionals in psychiatric rehabilitation and addiction recovery fields (such as case managers, homeless outreach specialists, parent aides, etc.), and peer support specialists and recovery coaches.

The behavioral health workforce is one of the fastest growing workforces in the country. Employment projections for 2020 based on the U.S. Bureau of Labor Statistics forecast a rise in employment for substance abuse and mental health counselors with a 36.3% increase from 2010 to 2020—greater than the 11% projected average for all occupations. This is based on an expected increase in insurance coverage for mental health and substance use services brought about by passage of health reform and parity legislation and the rising rate of military veterans seeking behavioral health services. Serious workforce shortages exist for health professionals and paraprofessionals across the United States. For example, consider:

- In 2011, there were only 2.1 child and adolescent psychiatrists per 100,000 people and 62 clinical social workers per 100,000 people across the United States.
- 62 million people (20-23%) of the U.S. population live in rural or frontier counties; 75% of these counties have no advanced behavioral health practitioners.
- In 2012, the turnover rates in the addiction services workforce ranged from 18.5% to more than 50%.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Management's Discussion and Analysis

The 50 cent wage increase for direct care workers, approved by the legislature and signed by Governor Snyder, although appreciated, is inadequate for CMHSPs and providers to compete with private businesses such as Walmart and McDonalds to recruit, hire and retain direct care workers. Low wages for direct care workers is contributing to the serious workforce shortages for paraprofessionals in the KCMHSAS behavioral health and intellectual or developmental disabilities system of care.

### Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Kalamazoo Community Mental Health and Substance Abuse Services. Questions concerning any of the information provided in this report or request for additional information may be addressed to the Finance Director at 2030 Portage St., Kalamazoo, MI 49001.

## BASIC FINANCIAL STATEMENTS

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Statement of Net Position September 30, 2017

### Assets

#### Current assets:

Cash and cash equivalents	\$ 4,832,982
Investments	1,202,834
Accounts receivable	6,407,394
Accounts receivable - Medicaid	212,784
Due from State	221,126
Prepays	692,841
<b>Total current assets</b>	<b><u>13,569,961</u></b>

#### Noncurrent assets:

Long-term advances to providers	83,089
Capital assets not being depreciated	810,061
Capital assets being depreciated, net	9,352,135
Net pension asset	6,597,409
<b>Total noncurrent assets</b>	<b><u>16,842,694</u></b>

**Total assets** **30,412,655**

### Deferred outflows of resources

Deferred pension amounts 5,986,578

### Liabilities

#### Current liabilities:

Accounts payable	4,994,298
Accrued liabilities	613,815
Due to State	1,645,429
Due to PIHP	45,766
Due to providers	477,449
Unearned revenue	651,843
Current portion of long-term debt	1,275,157
<b>Total current liabilities</b>	<b><u>9,703,757</u></b>

#### Noncurrent liabilities:

Long-term debt, net of current portion 5,159,335

**Total liabilities** **14,863,092**

### Deferred inflows of resources

Deferred pension amounts 649,794

### Net position

Net investment in capital assets	4,796,639
Restricted for pension benefits	11,934,193
Unrestricted	4,155,515
	<u>4,155,515</u>

**Total net position** **\$ 20,886,347**

The accompanying notes are an integral part of these financial statements.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Statement of Revenues, Expenses and Changes in Fund Net Position For the Year Ended September 30, 2017

Operating revenues	
Medicaid	\$ 68,606,181
Federal and state grants	7,236,191
Charges for services	2,119,144
PA2 funds	155,400
Other revenues	<u>348,615</u>
<b>Total operating revenues</b>	<b><u>78,465,531</u></b>
Operating expenses	
Mental health program services:	
Mental illness adult population	28,361,079
Intellectual and developmental disabilities population	28,387,931
Youth services	11,431,290
Multipopulation	3,533,013
Management and general	<u>9,987,152</u>
<b>Total operating expenses</b>	<b><u>81,700,465</u></b>
Operating loss	<u>(3,234,934)</u>
Nonoperating revenues (expenses)	
County appropriation	1,618,000
Loss on disposal of capital assets	(6,171)
Interest revenue	8,654
Interest expense	<u>(149,750)</u>
<b>Total nonoperating revenues (expenses)</b>	<b><u>1,470,733</u></b>
Change in net position	(1,764,201)
Net position, beginning of year	<u>22,650,548</u>
Net position, end of year	<b><u>\$ 20,886,347</u></b>

The accompanying notes are an integral part of these financial statements.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Statement of Cash Flows

For the Year Ended September 30, 2017

Cash flows from operating activities	
Cash received from providing services	\$ 81,106,246
Cash payments to suppliers	(63,256,298)
Cash payments to employees for services	<u>(15,765,363)</u>
Net cash provided by operating activities	<u>2,084,585</u>
Cash flows from noncapital financing activities	
County appropriation	<u>1,618,000</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(118,877)
Payments on long-term debt	(195,000)
Interest paid	<u>(149,750)</u>
Net cash used in capital and related financing activities	<u>(463,627)</u>
Cash flows from investing activities	
Purchases of investments	(7,754)
Interest received	<u>8,654</u>
Net cash provided by investing activities	<u>900</u>
Change in cash and cash equivalents	3,239,858
Cash and cash equivalents, beginning of year	<u>1,593,124</u>
Cash and cash equivalents, end of year	<u>\$ 4,832,982</u>

continued...

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Statement of Cash Flows

For the Year Ended September 30, 2017

Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (3,234,934)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	514,998
Changes in:	
Accounts receivable	4,294,297
Due to/from State	241,988
Due to/from providers	53,419
Prepays	27,138
Net pension asset and related deferred amounts	1,712,753
Accounts payable	270,191
Accrued liabilities	45,285
Due to PIHP	(2,299,412)
Unearned revenue	403,842
Compensated absences	55,020
	<hr/>
Net cash provided by operating activities	<u>\$ 2,084,585</u>
	concluded

The accompanying notes are an integral part of these financial statements.

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## NOTES TO FINANCIAL STATEMENTS

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Kalamazoo Community Mental Health and Substance Abuse Services (the “Authority”), established under Section 205 of the Mental Health Code, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

#### Reporting Entity

The Authority is a community mental health authority serving the mental health needs of Kalamazoo County residents. These financial statements represent the financial condition and the results of operations of a component unit of Kalamazoo County, Michigan (the “County”) and are an integral part of that reporting entity, as defined by generally accepted accounting principals. The County also provides financial support annually to the Authority.

#### Financial Statements

The financial statements report information on all of the activities of Kalamazoo Community Mental Health and Substance Abuse Services.

The operations of the Authority are accounted for as an enterprise fund (a proprietary fund) which is designed to be self-supporting. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Enterprise fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The enterprise fund is the Authority’s primary operating fund and only fund. It accounts for all financial resources of the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Authority’s operating fund are contract revenues from the Michigan Department of Health and Human Services (MDHHS) and first and third party billings. Operating expenses include the cost of providing mental health and substance abuse services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

### *Deposits and Investments*

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Authority to invest in the accounts of federally insured banks, credit unions, and savings and loan associations; and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

### *Receivables*

Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements and from other agencies, governments and organizations for services rendered.

### *Prepays*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in the financial statements.

### *Capital Assets*

Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	25-40
Equipment and furnishings	3-20
Vehicles	5

The Authority reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred the asset is written down to its net realizable value and a current charge to income is recognized.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

### *Deferred Outflows of Resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority's deferred outflows of resources are related to the net pension asset.

### *Long-term Debt*

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line basis. Contracts payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expense when incurred.

### *Compensated Absences*

It is the Authority's policy to permit employees to accumulate paid time off, subject to certain limitations. Any earned but unused paid time off is reported as a liability in the statement of net position.

### *Unearned Revenue*

Unearned revenue represents restricted programmatic funding not expended before year-end. It also includes that portion of the current-year MDHHS contract amount that may be carried over to and expended in subsequent fiscal years. Such carryover is generally limited to five percent of the MDHHS contract amount, and must generally be spent in the following year.

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority's deferred inflows of resources are related to the net pension asset.

### *Pensions*

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

### *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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. DEPOSITS AND INVESTMENTS

### Deposits and Investments

Following is a reconciliation of deposit and investment balances as of September 30, 2017:

#### Cash and investments

##### Statement of net position:

Cash and cash equivalents	\$ 4,832,982
Investments	<u>1,202,834</u>
Total	<u>\$ 6,035,816</u>

#### Deposits and investments

##### Deposits:

Checking/savings accounts	\$ 4,832,352
Certificates of deposit (due within one year)	1,202,834
Cash on hand	<u>630</u>
Total	<u>\$ 6,035,816</u>

*Interest Rate Risk.* Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. The Authority's investment policy complies with State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities. The policy does not place specific limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy states that the investment portfolio shall remain sufficiently liquid to enable the CEO, Deputy Director of Administrative Services, and Finance Director to meet all operating requirements that may be reasonably anticipated. Maturities have been identified above for all of the Authority's investments.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$5,028,777 of the Authority's bank balance of \$6,481,611 was exposed to credit risk because it was uninsured and uncollateralized.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. Except for U.S. Treasury Securities and authorized investment pools, the Authority limits the amount invested in a single security type or single financial institution to be no more than 60% of the total portfolio. Safety is one of the primary objectives of the Authority's investment policy, and seeks to ensure the preservation of principal in the overall portfolio. Diversification is required by the policy in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. At year-end, the Authority was in compliance with its approved investment policy.

### 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 751,097	\$ -	\$ -	\$ -	\$ 751,097
Work in progress	37,870	118,877	-	(97,783)	58,964
	<u>788,967</u>	<u>118,877</u>	<u>-</u>	<u>(97,783)</u>	<u>810,061</u>
Capital assets being depreciated:					
Buildings and improvements	11,455,505	-	(10,807)	88,285	11,532,983
Equipment and furnishings	2,385,353	-	(253,155)	9,498	2,141,696
Vehicles	27,000	-	-	-	27,000
	<u>13,867,858</u>	<u>-</u>	<u>(263,962)</u>	<u>97,783</u>	<u>13,701,679</u>
Less accumulated depreciation for:					
Buildings and improvements	(2,514,639)	(362,797)	10,807	-	(2,866,629)
Equipment and furnishings	(1,550,698)	(152,201)	246,984	-	(1,455,915)
Vehicles	(27,000)	-	-	-	(27,000)
	<u>(4,092,337)</u>	<u>(514,998)</u>	<u>257,791</u>	<u>-</u>	<u>(4,349,544)</u>
Total capital assets being depreciated, net	<u>9,775,521</u>	<u>(514,998)</u>	<u>(6,171)</u>	<u>97,783</u>	<u>9,352,135</u>
Total capital assets, net	<u>\$ 10,564,488</u>	<u>\$ (396,121)</u>	<u>\$ (6,171)</u>	<u>\$ -</u>	<u>\$ 10,162,196</u>

Depreciation expense is allocated in the statement of revenues, expenses and changes in fund net position based on each asset's primary use.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

### 4. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Contracts payable (Bonds held by the County)	\$ 5,000,000	\$ -	\$ (100,000)	\$ 4,900,000	\$ 100,000
Note payable	405,000	-	(95,000)	310,000	100,000
	<u>5,405,000</u>	<u>-</u>	<u>(195,000)</u>	<u>5,210,000</u>	<u>200,000</u>
Premium on contracts payable	155,557	-	-	155,557	6,222
Compensated absences	<u>1,013,915</u>	<u>1,088,462</u>	<u>(1,033,442)</u>	<u>1,068,935</u>	<u>1,068,935</u>
Total long-term debt	<u>\$ 6,574,472</u>	<u>\$ 1,088,462</u>	<u>\$ (1,228,442)</u>	<u>\$ 6,434,492</u>	<u>\$ 1,275,157</u>

*Contracts Payable.* Kalamazoo County issued general obligation bonds in the original amount of \$5,000,000 on behalf of the Authority to finance the construction of a new complex. In accordance with an intergovernmental agreement, the Authority is required to make all principal and interest payments as they become due. The bonds are due annually in amounts ranging from \$100,000 to \$400,000 with final maturity in May 2034. Interest is payable semi-annually at a rate ranging from 2.25% to 4.0%.

*Note Payable.* In order to finance the purchase of a building, the Authority obtained a note payable in the original amount of \$500,000 from a local bank. The note is due in annual installments ranging from \$95,000 to \$105,000 with final maturity in June 2020. The note is secured by a first real estate mortgage on the real property financed with the debt. Interest is charged based on the one-month LIBOR rate plus 1.4% (an effective rate of 2.63% at September 30, 2017).

Annual requirements, excluding compensated absences and the unamortized premium on contracts payable, to maturity on the total long-term obligations outstanding at September 30, 2017 are as follows:

Year Ended September 30,	Principal	Interest
2018	\$ 200,000	\$ 155,982
2019	255,000	150,155
2020	280,000	142,714
2021	200,000	135,250
2022	225,000	129,250
2023-2027	1,450,000	520,276
2028-2032	1,800,000	299,126
2033-2034	<u>800,000</u>	<u>39,000</u>
Totals	<u>\$ 5,210,000</u>	<u>\$ 1,571,753</u>

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

### 5. UNEARNED REVENUE

At September 30, 2017, unearned revenue consisted of the following:

Current year general fund carryover	\$ 163,837
Performance Bonus Incentive Pool	411,895
Unearned integrated healthcare funds	47,608
Unearned local funds for neonatal prevention and treatment	22,228
Unearned housing funds	1,812
Other unearned programmatic funds	<u>4,463</u>
<b>Total</b>	<b><u><u>\$ 651,843</u></u></b>

### 6. DEFINED BENEFIT PENSION PLAN

#### *General Information About the Plan*

*Plan Description.* The Authority participates in the Kalamazoo County Employees' Retirement System (the "Plan"), a single-employer, defined benefit pension plan which provides retirement and disability benefits to eligible plan members and beneficiaries. The Plan was established by the Kalamazoo County Board of Commissioners and is administered by the Kalamazoo County Retirement Investment Committee. Eligible employees include those holding regular positions, either full-time or part-time, of 20 hours or more per week. The Plan is controlled by State of Michigan law. Any changes to the plan document must be approved by the Kalamazoo County Board Commissioners and subsequently implemented by the Retirement Investment Committee and the County Administrator/Controller. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The financial report may be obtained by writing to the Office of Finance, County of Kalamazoo, Michigan, 201 West Kalamazoo Avenue, Kalamazoo, Michigan 49007.

*Benefits Provided.* Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 5 year period with a maximum benefit of 75% of final average salary) and a multiplier of 2.5% (2.0% for employees hired on or after January 1, 2016). Participants are considered to be fully vested in the plan after 8 years. Normal retirement age is 55 with 25 years of service or age 60 with 8 years of service. Early retirement is available at age 55 with 8 years of service with an age reduction factor.

*Employees Covered by Benefit Terms.* At December 31, 2016, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	42
Inactive employees entitled to but not yet receiving benefits	57
Active employees (vested)	81
Active employees (nonvested)	<u>132</u>
<b>Total membership</b>	<b><u><u>312</u></u></b>

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

*Contributions.* The employer is required to contribute amounts at least equal to the actuarially determined rate which is adjusted on a calendar year basis. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees of the Authority are not required to contribute to the Plan. Employer contributions are expressed as a percentage of covered payroll and vary by employment class:

	Calendar Year	
	2017	2016
Managerial	8.61%	9.64%
Professional	3.41%	2.45%
TOPS	4.64%	5.44%

### *Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At September 30, 2017, the Authority reported an asset of \$6,597,409 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation rolled forward from December 31, 2015. The Authority's proportion of the net pension asset was based on the present value of future benefits for each employer (which reflects the long-term obligation of each employer to the plan) as of December 31, 2015. At December 31, 2016, the Authority's proportion was 18.324%. This was an increase from the Authority's proportion at December 31, 2015 of 17.724%.

For the year ended September 30, 2017, the Authority recognized pension expense of \$2,239,161. The Authority reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 744,589	\$ -	\$ 744,589
Changes of assumptions	230,456	-	230,456
Changes in proportion and differences between employer contributions and share of contributions	4,593,755	194,280	4,399,475
Differences between expected and actual experience	-	455,514	(455,514)
	<u>5,568,800</u>	<u>649,794</u>	<u>4,919,006</u>
Contributions subsequent to the measurement date	417,778	-	417,778
Total	<u>\$ 5,986,578</u>	<u>\$ 649,794</u>	<u>\$ 5,336,784</u>

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending September 30, 2018. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended September 30,	Amount
2018	\$ 1,894,948
2019	1,894,948
2020	1,499,087
2021	<u>(369,977)</u>
Total	<u>\$ 4,919,006</u>

*Actuarial Assumptions.* The total pension asset in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5% (including price inflation of 2.75%)
Salary increases	3.50% to 5.5%
Investment rate of return	7.5%, net of investment expense and including inflation
Mortality	RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB. This table was first used for the December 31, 2014 valuation. Rates for disabled members were set forward 7 years.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study conducted in 2015 covering years 2009 to 2013.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Small Cap (Manager 1)	5.00%	4.60%
U.S. Small Cap (Manager 2)	10.00%	4.60%
International Developed Equity	10.00%	4.10%
U.S. Large Cap (Manager 1)	30.00%	4.10%
U.S. Large Cap (Manager 2)	5.00%	4.20%
Emerging Markets	10.00%	6.60%
Domestic Fixed Income	25.00%	1.00%
Real Estate (Manager 1)	2.50%	2.90%
Real Estate (Manager 2)	2.50%	2.90%

*Discount Rate.* The discount rate used to measure the total pension asset was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Authority contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Asset to Changes in the Discount Rate.* The following presents the net pension asset of the Authority, calculated using the discount rate of 7.5%, as well as what the Authority's net pension asset would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Authority's net pension asset	\$ 2,645,319	\$ 6,597,409	\$ 9,907,779

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

*Payable to the Pension Plan.* At September 30, 2017, the Authority reported a payable of \$22,424 for the outstanding amount of contributions to the pension plan required for the year ended September 30, 2017.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

### 7. DEFINED CONTRIBUTION RETIREMENT PLAN

When the Authority became a separate legal entity, it elected not to participate in the Social Security System. To provide its employees a similar retirement benefit, the Authority sponsored a 401(h) plan. Under the terms of this Plan, both the Authority and its employees are required to contribute the same amounts that would be due if the Authority had elected to participate in the Social Security System. For the year ended September 30, 2017, the Authority and its employees each contributed \$715,598. The Authority is not a fiduciary with respect to the Plan, and accordingly, assets and liabilities of the Plan have been excluded from these financial statements.

### 8. OTHER POSTEMPLOYMENT BENEFITS

*Plan Description.* The Authority participates in the Kalamazoo County Retiree Healthcare Plan, an employer financed retiree health benefit plan, which is administered by Kalamazoo County. The Authority establishes and amends the benefit provisions of the participants in the Plan. Kalamazoo County issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Kalamazoo County.

*Funding Policy.* The Authority is required to contribute at an actuarially determined rate; the current rate is 4.00% of annual covered payroll through December 31, 2016 and 4.25% of annual covered payroll beginning January 1, 2017.

*Annual OPEB Cost and Net OPEB Obligation.* The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

During the year ended September 30, 2017, the Authority made contributions to the plan totaling \$231,786, which are based on actuarial projections of funding requirements and are equal to the required contributions. The required contribution was determined as part of the December 31, 2015 actuarial valuation. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

Three-Year Trend Information			
Year Ended September 30,	Annual OPEB Cost	Percentage of Annual OPEB Contribution	Net OPEB Obligation
2015	\$ 238,751	100%	\$ -
2016	239,851	100%	-
2017	231,786	100%	-

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

*Funded Status and Funding Progress.* As of December 31, 2015, the most recent actuarial valuation date, the Plan was 64.2% funded. The actuarial accrued liability for benefits was \$4,800,580 and the actuarial value of assets was \$3,083,914, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,716,666. The covered projected payroll (annual payroll of active employees covered by the plan) was \$6,008,440 and the ratio of UAAL to covered projected payroll was 28.6%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to the point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2015 actuarial valuation, the entry-age normal actuarial cost method was used. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected healthcare trend rates of 9.0% initially, reduced to 3.5% over a period of 10 years, and (c) base pay increases of 3.5%. The unfunded actuarial accrued liability is being amortized using the level dollar method on a closed basis. The remaining amortization period for all liabilities at December 31, 2015, the date of the most recent actuarial valuation, was 26 years.

## 9. RISK MANAGEMENT

The risks of loss arising from general liability, property and crime, are insured through participation in the Michigan Municipal Risk Management State Pool, a public entity risk pool currently operating as a common risk management program for government entities in the State of Michigan.

The Authority pays annual premiums to the State Pool for insurance coverage up to a maximum of \$15,000,000 for aggregate general liability claims and \$24,803,373 for property and crime claims. In the event of unusually high claims, the State Pool may assess member government units on a retroactive basis. The Authority purchases commercial insurance for risks of loss arising from employee health, medical, and workers' compensation claims. The Authority has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

## 10. CONCENTRATIONS AND ECONOMIC DEPENDENCY

Approximately 94% of total revenue is either directly or indirectly, paid by or due from the Michigan Department of Health and Human Services.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Financial Statements

### 11. CONTINGENCIES

Under the terms of various federal and state grants and regulatory requirements, the Authority is subject to periodic audits of its agreements, as well as a cost settlement process under the full management contract with the state. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies. The amount, if any, of expenditures which may be disallowed cannot be determined at this time, although the Authority expect such amounts, if any, to be immaterial.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2017.

### 12. NET POSITION

#### *Net Investment in Capital Assets*

As of September 30, 2017, the Authority's net investment in capital assets was comprised of the following:

Invested in capital assets:	
Capital assets not being depreciated	\$ 810,061
Capital assets being depreciated, net	<u>9,352,135</u>
	<u>10,162,196</u>
Related debt:	
Contracts payable	4,900,000
Note payable	310,000
Unamortized premium	<u>155,557</u>
	<u>5,365,557</u>
Total net investment in capital assets	<u>\$ 4,796,639</u>

#### *Restricted Net Position*

The Authority's restricted net position represents amounts held in a qualified trust for the purpose of providing pension benefits to qualified employees and retirees. This amount represents an excess of assets held in trust over the actuarial accrued liability for providing pension benefits. Since these amounts are held in trust, they cannot be accessed by the Authority or used at the Board's discretion.

#### *Unrestricted Net Position*

As of September 30, 2017, unrestricted net position was comprised of the following:

Designated for equipment replacement	\$ 792,910
Undesignated	<u>3,362,605</u>
Total unrestricted net position	<u>\$ 4,155,515</u>



## REQUIRED SUPPLEMENTARY INFORMATION

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Required Supplementary Information Defined Benefit Pension Plan

### Schedule of the Authority's Proportionate Share of the Net Pension Asset

	Year Ended September 30,		
	2015	2016	2017
Authority's proportion of the net pension asset	34.414%	17.724%	18.324%
Authority's proportionate share of the net pension asset	\$ 14,791,176	\$ 4,634,263	\$ 6,597,409
Authority's covered payroll	10,422,152	10,009,846	10,652,479
Authority's proportionate share of the net pension asset as a percentage of its covered payroll	141.9%	46.3%	61.9%
Plan fiduciary net position as a percentage of the total pension liability	126.6%	115.7%	121.0%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Required Supplementary Information Defined Benefit Pension Plan

### Schedule of Contributions

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2015	\$ 515,417	\$ 515,417	\$ -	\$ 9,773,277	5.3%
2016	504,126	504,126	-	10,142,610	5.0%
2017	515,064	515,064	-	11,299,962	4.6%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Required Supplementary Information Retiree Healthcare Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
12/31/2011	\$ 2,521,844	\$ 5,191,359	\$ 2,669,515	48.6%	\$ 9,552,465	27.9%
12/31/2013	3,148,454	4,621,935	1,473,481	68.1%	10,116,884	14.6%
12/31/2015	3,083,914	4,800,580	1,716,666	64.2%	6,008,440	28.6%

Schedule of Employer Contributions

Fiscal Year Ended September 30,	Annual Required Contribution	Percentage Contributed
2014	\$ 290,484	100%
2015	238,751	100%
2016	239,851	100%
2017	231,786	100%

## SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

March 22, 2018

Board of Directors  
Kalamazoo Community Mental Health and  
Substance Abuse Services  
Kalamazoo, Michigan

We have audited the financial statements of *Kalamazoo Community Mental Health and Substance Abuse Services* (the "Authority"), a component unit of Kalamazoo County, Michigan, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated March 22, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Rehmann Robson LLC*

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2017					
Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
U.S. Department of Housing and Urban Development Emergency Solutions Grant Program	14.231	MSHDA	HML-2013-5395-ESF	\$ -	\$ 35,645
Continuum of Care Program:					
HUD Grant (HBI) - Renewal 11 (1 yr.)	14.267	Direct	MI0183L5F071508	-	258,393
HUD Grant (HBI) - Renewal 12 (1 yr.)	14.267	Direct	MI0183L5F071609	-	67,038
HUD Grant (HBII) - Renewal 8 (1 yr.)	14.267	Direct	MI0184L5F071508	-	97,891
HUD Grant (HBII) - Renewal 9 (1 yr.)	14.267	Direct	MI0183L5F071609	-	175,375
HUD Grant (HBIII) - Renewal 8 (1 yr.)	14.267	Direct	MI0185L5F071508	-	55,317
HUD Grant (Full Count) - Renewal 8 (1 yr.)	14.267	Direct	MI0182L5F071508	-	40,594
HUD Grant (Home Run) - Renewal 6 (1 yr.)	14.267	Direct	MI0332L5F071506	-	26,045
HUD Grant (Home Run) - Renewal 7 (1 yr.)	14.267	Direct	MI0332L5F071607	-	4,886
HUD Grant (1st Base) - Renewal 6 (1 yr.)	14.267	KCPHC	MI0295L5F071406	-	7,241
HUD Grant (1st Base) - Renewal 7 (1 yr.)	14.267	KCPHC	MI0295L5F071507	-	23,688
HUD Grant (2nd Base) - Renewal 5 (1 yr.)	14.267	Direct	MI0296L5F071406	-	24,631
HUD Grant (2nd Base) - Renewal 6 (1 yr.)	14.267	Direct	MI0296L5F071507	-	44,390
HUD Grant (3rd Base) - Renewal 4 (1 yr.)	14.267	Direct	MI0346L5F071403	-	15,502
HUD Grant (3rd Base) - Renewal 5 (1 yr.)	14.267	Direct	MI0346L5F071504	-	32,729
HUD Grant (Grand Slam) - Renewal 5 (1 yr.)	14.267	Direct	MI0178L5F071506	-	33,279
HUD Grant (Grand Slam) - Renewal 6 (1 yr.)	14.267	Direct	MI0178L5F07167	-	23,579
				-	930,578
Total U.S. Department of Housing and Urban Development				-	966,223
U.S. Department of Education Race to the Top - Early Learning Challenge	84.412	MDHHS	E20171789-00	61,036	61,036
U.S. Department of Health and Human Services Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	Direct	5U79SM062448-02	-	922,506
Projects for Assistance in Transition from Homelessness (PATH)	93.150	MDHHS	2X06SM016023-15	-	35,062
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	Direct	5H79SM062205-02	-	340,134
Medicaid Cluster: Medical Assistance Program:					
OBRA - PASARR	93.778	MDHHS	n/a	137,821	137,821
University of Michigan Liaison Grant	93.778	UofM	E20171470-00	-	35,539
Community Health Access Program (CHAP)	93.778	UofM	n/a	-	13,572
				137,821	186,932
Block Grants for Community Mental Health Services:					
Behavioral Health Consultant Grant	93.958	MDHHS	E20171394-00	-	31,953
Enhanced Nutrition Care Coordination & Medical Culinary Ed Programs	93.958	MDHHS	E20170214-00	-	83,469
Keystone Drop In Center	93.958	MDHHS	E20171787-00	-	4,872
Statewide PMTO Training and TA	93.958	MDHHS	E20171400-00	-	273,385
				-	393,679
Block Grants for the Prevention and Treatment of Substance Abuse:					
Opioid Outreach and Recovery Program	93.959	MDHHS	n/a	-	17,733
Total U.S. Department of Health and Human Services				137,821	1,896,046
Total Expenditures of Federal Awards				\$ 198,857	\$ 2,923,305

See accompanying notes to schedule of expenditures of federal awards.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority") under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Authority's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

For purposes of charging indirect costs to federal awards, the Authority has not elected to use the 10% de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

### 3. PASS-THROUGH AGENCIES

The Authority receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Abbreviation	Pass-through Agency Name
KCPHC	Kalamazoo County Public Housing Commission
MDHHS	Michigan Department of Health and Human Services
MSHDA	Michigan State Housing Department Authority
UofM	University of Michigan



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

March 22, 2018

Board of Directors  
Kalamazoo Community Mental Health and  
Substance Abuse Services  
Kalamazoo, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of *Kalamazoo Community Mental Health and Substance Abuse Services* (the "Authority"), a component unit of Kalamazoo County, Michigan, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 22, 2018.

#### Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

March 22, 2018

Board of Directors  
Kalamazoo Community Mental Health and  
Substance Abuse Services  
Kalamazoo, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of *Kalamazoo Community Mental Health and Substance Abuse Services* (the "Authority"), a component unit of Kalamazoo County, Michigan, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2017. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Independent Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### *Purpose of this Report*

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2017

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?        yes   X   no

Significant deficiency(ies) identified?        yes   X   none reported

Noncompliance material to financial statements noted?        yes   X   no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?        yes   X   no

Significant deficiency(ies) identified?        yes   X   none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?        yes   X   no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?   X   yes        no

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2017

### SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2017

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

■ ■ ■ ■ ■

# KALAMAZOO COMMUNITY MENTAL HEALTH AND SUBSTANCE ABUSE SERVICES

## Summary Schedule of Prior Audit Findings

For the Year Ended September 30, 2017

No matters were reported.

