



# Kalamazoo Community Mental Health and Substance Abuse Services

Financial Statements and  
Single Audit Act Compliance  
Year Ended September 30, 2018

**Kalamazoo Community Mental Health and  
Substance Abuse Services**

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Financial Statements and Single Audit Act Compliance  
Year Ended September 30, 2018

# Kalamazoo Community Mental Health and Substance Abuse Services

## Contents

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Independent Auditor's Report	3-4
Management's Discussion and Analysis	5-13
Financial Statements:	
Statement of Financial Position	14-15
Statement of Revenues, Expenses and Changes in Net Position	16
Statement of Cash Flows	17-18
Notes to Financial Statements	19-35
Required Supplementary Information:	
<i>Defined Benefit Pension Plan:</i>	
Schedule of Authority's Proportionate Share of the Net Pension Asset	36
Schedule of Contributions	37
<i>Retiree Healthcare Plan:</i>	
Schedule of Authority's Proportionate Share of the Net OPEB Liability	38
Schedule of Contributions	39
Single Audit Act Compliance:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	42-44
Schedule of Expenditures of Federal Awards	45-46
Notes to Schedule of Expenditures of Federal Awards	47
Schedule of Findings and Questioned Costs	48



## Independent Auditor's Report

Kalamazoo Community Mental Health and  
Substance Abuse Services  
Kalamazoo, Michigan

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, 2018, 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.

### *Auditor's 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 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 Authority'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 Authority'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 the Authority as of September 30, 2018, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As described in Note 13 to the basic financial statements, the Authority implemented Governmental Accounting standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions were not modified with respect to this matter.

### *Other Matters*

#### *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 retiree healthcare 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, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*BDO USA, LLP*

Kalamazoo, Michigan

March 22, 2019

## Management Discussion and Analysis

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# Kalamazoo Community Mental Health and Substance Abuse Services

## Management Discussion and Analysis

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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, 2018. 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 was operating in this manner.

For the year ended September 30, 2018, the Authority implemented Governmental Accounting Standards Board No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The information contained in this MD&A should be considered in conjunction with the information contained in the financial statements audited by BDO USA, LLP for the year ended September 30, 2018. 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 \$23,630,970 for the period ended September 30, 2018. This represents an increase of \$2,744,623 from the prior period ended September 30, 2017, when the Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,886,347.

# Kalamazoo Community Mental Health and Substance Abuse Services

## Management Discussion and Analysis

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

<i>September 30,</i>	2018	2017	Change	% Change
<b>Assets</b>				
Current and other assets	\$ 28,493,442	\$ 20,250,459	\$ 8,242,983	40.7%
Capital assets, net	9,895,849	10,162,196	(266,347)	-2.6%
<b>Total Assets</b>	<b>38,389,291</b>	<b>30,412,655</b>	<b>7,976,636</b>	<b>26.2%</b>
<b>Deferred outflows of resources</b>	<b>4,459,939</b>	<b>5,986,578</b>	<b>(1,526,639)</b>	<b>-25.5%</b>
<b>Liabilities</b>				
Long-term liabilities	6,876,203	6,434,492	441,711	6.9%
Current liabilities	9,020,073	8,428,600	591,473	7.0%
<b>Total Liabilities</b>	<b>15,896,276</b>	<b>14,863,092</b>	<b>1,033,184</b>	<b>7.0%</b>
<b>Deferred Inflows of Resources</b>	<b>3,282,512</b>	<b>649,794</b>	<b>2,632,718</b>	<b>405.2%</b>
<b>Net Position:</b>				
Net investment in capital assets	4,736,514	4,796,639	(60,125)	-1.3%
Restricted	9,235,859	11,934,193	(2,698,334)	-22.6%
Unrestricted	9,698,069	4,155,515	5,542,554	133.4%
<b>Total Net Position</b>	<b>\$ 23,670,442</b>	<b>\$ 20,886,347</b>	<b>\$ 2,784,095</b>	<b>13.3%</b>

The amount of the Authority's net investment in capital assets at September 30, 2018 is \$4,736,514 or 20.0% of total net position. Unrestricted net position of \$9,698,069 represents 41% of total net position. The remaining net position of \$9,235,859, or 39% represents amounts held in trust for payment of pension benefits and OPEB in excess of the actuarial accrued liability for providing such benefits. The increase in current and other assets is related to changes in the pension plan. The decrease in deferred outflows is the result of changes in the deferrals related to the pension and OPEB plans concerning the difference between projected and actual earnings. The increase in the deferred inflows is related to changes in the County pension and OPEB plans.



# Kalamazoo Community Mental Health and Substance Abuse Services

## Management Discussion and Analysis

The following summarizes the revenues, expenses, and change in net position for the years ended September 30, 2018 and 2017:

<i>Year ended September 30,</i>	2018	2017	Change	% Change
<b>Operating Revenues:</b>				
Medicaid	\$ 70,857,526	\$ 68,606,181	\$ 2,251,345	3.3%
Federal and state grants	8,999,424	7,236,191	1,763,233	24.4%
Charges for services	1,708,606	2,119,144	(410,538)	-19.4%
PA2 funds	155,400	155,400	-	0.0%
Other	712,516	348,615	363,901	104.4%
<b>Total Operating Revenues</b>	<b>82,433,472</b>	<b>78,465,531</b>	<b>3,967,941</b>	<b>5.1%</b>
<b>Operating Expenses:</b>				
Mental illness adult population	28,530,634	28,361,079	169,555	0.6%
Intellectual and developmental disabilities population	29,589,060	28,387,931	1,201,129	4.2%
Youth services	13,245,323	11,431,290	1,814,033	15.9%
Multipopulation	4,857,422	3,533,013	1,324,409	37.5%
Management and general	8,471,749	9,987,152	(1,515,403)	-15.2%
<b>Total Operating Expenses</b>	<b>84,694,188</b>	<b>81,700,465</b>	<b>2,993,723</b>	<b>3.7%</b>
Operating loss	(2,260,716)	(3,234,934)	974,218	-30.1%
<b>Nonoperating Revenues (Expenses):</b>				
County appropriation	1,550,400	1,618,000	(67,600)	-4.2%
Loss on disposal of capital assets	(3,330)	(6,171)	2,841	-46.0%
Interest revenue	65,945	8,654	57,291	662.0%
Interest expense	(154,732)	(149,750)	(4,982)	3.3%
Restricted donations	5,037,045	-	5,037,045	-100.0%
<b>Total Nonoperating Revenues:</b>	<b>6,495,328</b>	<b>1,470,733</b>	<b>5,024,595</b>	<b>341.6%</b>
<b>Change in Net Position</b>	<b>4,234,612</b>	<b>(1,764,201)</b>	<b>5,998,813</b>	<b>-340.0%</b>
Net Position, beginning of year	20,886,347	22,650,548	(1,764,201)	-7.8%
<b>GASB No. 75 Adjustment</b>	<b>(1,450,517)</b>	<b>-</b>	<b>(1,450,517)</b>	<b>-100.0%</b>
<b>Restated Net Position, beginning of year</b>	<b>19,435,830</b>	<b>22,650,548</b>	<b>(3,214,718)</b>	<b>-14.2%</b>
<b>Net Position, end of year</b>	<b>\$ 23,670,442</b>	<b>\$ 20,886,347</b>	<b>\$ 2,784,095</b>	<b>13.3%</b>

# Kalamazoo Community Mental Health and Substance Abuse Services

## Management Discussion and Analysis

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### Financial Operations Highlights

- The increase in intellectual and developmental disabilities population expenses relates to an increase of .50 per hour for direct care workers and an increase of the number of individuals receiving personal care and community living supports due to not having staff available to go into homes.
- The increase in youth services expenses relates to increases in Autism services.
- The increase in multipopulation expenses relates primarily to having additional grant funds in this area.
- The decrease in management and general expenses relates primarily to allocation of costs methodology.

### Capital Assets and Long-term Debt

**Capital Assets.** As of September 30, 2018, the Authority had \$9.9 million invested in a variety of capital assets as reflected in the following schedule:

<i>September 30,</i>	<b>2018</b>	<b>2017</b>
Land	\$ 751,097	\$ 751,097
Work in progress	34,619	58,964
Buildings and improvements	11,662,436	11,532,983
Equipment and furnishings	2,234,292	2,141,696
Vehicles	27,000	27,000
	<b>14,709,444</b>	<b>14,511,740</b>
Less accumulated depreciation	<b>4,813,595</b>	<b>4,349,544</b>
<b>Net Property and Equipment</b>	<b>\$ 9,895,849</b>	<b>\$ 10,162,196</b>

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

# Kalamazoo Community Mental Health and Substance Abuse Services

## Management Discussion and Analysis

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**Long-term Debt.** At the end of the current fiscal year, the Authority had total debt outstanding of \$6,233,181. The decrease is the result of making debt payments in accordance with amortization schedules.

<i>September 30,</i>	<b>2018</b>	<b>2017</b>
Contracts payable	\$ 4,800,000	\$ 4,900,000
Note payable	210,000	310,000
Premium on contracts payable	149,335	155,557
Compensated absences	1,073,846	1,068,935
<b>Total long-term debt</b>	<b>\$ 6,233,181</b>	<b>\$ 6,434,492</b>

### Factors Impacting the Future

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

- Section 298 of the Fiscal Year 2019 Michigan State Budget bill
- Milliman, Inc. SFY 2018 Development of Autism Rates
- Milliman, Inc. SFY 2019 Development of Behavioral Health Fee Screen
- 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 Discussion and Analysis

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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 2019 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 Discussion and Analysis

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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 Autism Rates*

There remains concern that the Milliman unit/encounter data rates for ABA (autism services) that are used to set the Fiscal Year 2019 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.

# Kalamazoo Community Mental Health and Substance Abuse Services

## Management Discussion and Analysis

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### *Michigan Department of Health and Human Services Development of a Behavioral Health Fee Schedule*

The Michigan Department of Health and Human Services (MDHHS) collects detailed financial reports on an annual basis from Prepaid Inpatient Health Plans (PIHPs), including utilization, cost of service, and expenditure information for each of the services provided under the managed care contract. These reports provide a source for understanding how both utilization and cost change over time. The PIHPs reported material unit cost increases for services provided during state fiscal year (SFY) 2017 in comparison to amounts from the prior year. As a result, the PIHPs reported losses of approximately \$130 million on a statewide basis in SFY 2017. The CMHSP and PIHP reporting provided to MDHHS did not include sufficient information to discern the drivers of the unit cost increases from SFY 2016 to SFY 2017. Additionally, there was inconsistency in reporting of both benefit and administrative costs incurred across the CMHSPs and PIHPs for the behavioral health program. In tis regard, the MDHHS created a Fee Screen Development Workgroup to help identify those drivers and provide more transparency in how unit costs are calculated across the behavioral health program.

The primary goal of the project is to develop a fee schedule that is based on the costs associated with the delivery of behavioral health services covered under the managed care contract. This project will also provide better insight into the current administrative costs incurred across the system. The long-term goal of this project is to develop a process to better understand future costs changes in the behavioral health system and to allow for potential updates to the fee scheduled as needed.

### *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.

# Kalamazoo Community Mental Health and Substance Abuse Services

## Management Discussion and Analysis

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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%.

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:

Finance Director  
Kalamazoo Community Mental Health and Substance Abuse Services  
2030 Portage Street  
Kalamazoo, Michigan 49001

## Financial Statements

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# Kalamazoo Community Mental Health and Substance Abuse Services

## Statement of Financial Position

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*September 30, 2018*

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### Assets

#### Current assets:

Cash and cash equivalents	\$	5,486,169
Investments		5,062,783
Accounts receivable		6,459,191
Accounts receivable - Medicaid		318,634
Due from State		439,150
Prepays		690,993

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Total current assets 18,456,920

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#### Noncurrent assets:

Capital assets not being depreciated		785,716
Capital assets being depreciated, net		9,110,133
Net pension asset		10,036,522

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Total noncurrent assets 19,932,371

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**Total Assets 38,389,291**

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#### Deferred outflows of resources:

Deferred pension amounts		3,852,992
Deferred OPEB amounts		606,947

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**Total Deferred Outflows of Resources 4,459,939**

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# Kalamazoo Community Mental Health and Substance Abuse Services

## Statement of Financial Position

September 30, 2018

**Liabilities:**

Current liabilities:

Accounts payable	\$ 5,369,327
Accrued liabilities	726,385
Due to State	605,465
Due to PIHP	151,375
Due to providers	691,998
Unearned revenue	140,455
Current portion of long-term debt	1,335,068

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Total current liabilities	9,020,073
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Noncurrent liabilities:

Long-term debt, net of current portion	4,898,113
Net OPEB liability	1,978,090

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Total noncurrent liabilities	6,876,203
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<b>Total Liabilities</b>	<b>15,896,276</b>
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Deferred inflows of resources:

Deferred pension amounts	3,053,251
Deferred OPEB amounts	229,261

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Total Deferred inflows of resources	3,282,512
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Net Position:

Net investment in capital assets	4,736,514
Restricted for pension and OPEB benefits	9,235,859
Unrestricted	9,698,069

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<b>Total Net Position</b>	<b>\$ 23,670,442</b>
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*See accompanying notes to financial statements.*

# Kalamazoo Community Mental Health and Substance Abuse Services

## Statement of Revenues, Expenses and Changes in Net Position

*Year ended September 30, 2018*

<b>Operating Revenues:</b>	
Medicaid	\$ 70,857,526
Federal and state grants	8,999,424
Charges for services	1,708,606
PA2 funds	155,400
Other revenues	712,516
<b>Total Operating Revenues</b>	<b>82,433,472</b>
<b>Operating Expenses:</b>	
Mental health program services:	
Mental illness adult population	28,530,634
Intellectual and developmental disabilities population	29,589,060
Youth services	13,245,323
Multipopulation	4,857,422
Management and general	8,471,749
<b>Total Operating Expenses</b>	<b>84,694,188</b>
<b>Operating loss</b>	<b>(2,260,716)</b>
<b>Nonoperating Revenues (Expenses):</b>	
County appropriation	1,550,400
Restricted donations	5,037,045
Interest revenue	65,945
Loss on disposal of capital assets	(3,330)
Interest expense	(154,732)
<b>Total Nonoperating Revenues</b>	<b>6,495,328</b>
<b>Change in Net Position</b>	<b>4,234,612</b>
Net position, beginning of year	20,886,347
<b>GASB No. 75 Adjustment</b>	<b>(1,450,517)</b>
<b>Restated Net Position, beginning of year</b>	<b>19,435,830</b>
<b>Net position, end of year</b>	<b>\$ 23,670,442</b>

*See accompanying notes to financial statements.*

# Kalamazoo Community Mental Health and Substance Abuse Services

## Statement of Cash Flows

*Year ended September 30, 2018*

<b>Operating Activities:</b>	
Received from providing services	\$ 82,142,738
Payments to suppliers	(70,952,748)
Payments to employees for services	(12,722,201)
<hr/>	
<b>Net Cash Used in Operating Activities</b>	<b>(1,532,211)</b>
<hr/>	
<b>Noncapital Financing Activities:</b>	
County appropriation	1,550,400
Restricted donations	5,037,045
<hr/>	
<b>Cash provided by Noncapital Financing Activities</b>	<b>6,587,445</b>
<hr/>	
<b>Capital and Related Financing Activities:</b>	
Purchase of capital assets	(247,089)
Payments on long-term debt	(206,222)
Interest paid	(154,732)
<hr/>	
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(608,043)</b>
<hr/>	
<b>Investing Activities:</b>	
Purchases of investments	(3,859,949)
Interest received	65,945
<hr/>	
<b>Net Cash Used in Investing Activities</b>	<b>(3,794,004)</b>
<hr/>	
<b>Increase in Cash and Cash Equivalents</b>	<b>653,187</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>4,832,982</b>
<hr/>	
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 5,486,169</b>

*See accompanying notes to financial statements.*

# Kalamazoo Community Mental Health and Substance Abuse Services

## Statement of Cash Flows

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*Year ended September 30, 2018*

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### Reconciliation of Operating Loss to Net Cash Used in

#### Operating activities:

Operating loss	\$ (2,260,716)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	510,106
Changes in:	
Accounts receivable	(157,647)
Due to/from State	(1,257,988)
Due to/from providers	297,638
Prepays	1,848
Net pension asset and related deferred amounts	1,097,930
Accounts payable	375,029
Accrued liabilities	112,570
Due to PIHP	105,609
Unearned revenue	(511,388)
Compensated absences	4,911
Net OPEB liability and related deferred amounts	149,887

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<b>Net Cash Used in Operating Activities</b>	<b>\$ (1,532,211)</b>
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*See accompanying notes to financial statements.*

# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

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### 1. Nature of Business and Summary of 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 principles. 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

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### 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.

Investments are carried at fair value except for commercial paper, banker's acceptances, and U.S. Treasury and agency obligations with a remaining maturity at the time of purchase of one year or less are shown at amortized cost.

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:

	<u>Years</u>
Buildings and improvements	25-40 Years
Equipment and furnishings	3-20 Years
Vehicles	5 Years

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

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### *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 and net OPEB liability.

### *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 and net OPEB liability.

### *Defined Benefit Plans*

For purposes of measuring the net pension asset and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from the plans fiduciary net position have been determined on the same basis as they are reported by the plans. 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

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### *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, 2018:

#### Cash and Investments -

Statement of net position:	
Cash and cash equivalents	\$ 5,486,169
Investments	5,062,783
<b>Total</b>	<b>\$ 10,548,952</b>

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#### *September 30, 2018*

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#### Deposits and Investments:

Statement of net position:	
Checking/savings accounts	\$ 5,485,539
Certificates of deposit (due within one year)	1,213,160
Treasury bonds	3,849,623
Cash on hand	630
<b>Total</b>	<b>\$ 10,548,952</b>

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*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, \$5,992,807 of the Authority's bank balance of \$7,455,967 was exposed to credit risk because it was uninsured and uncollateralized.

# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

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*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.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and the Authority does not have a policy for investment custodial credit risk. At year end, the Authority's investments consisted entirely of Treasury Bonds totaling \$3,849,673. There is no custodial credit risk, as these investment are not evidenced by physical securities.

*Credit Risk.* Stat law limits investments to specific government securities, certificates of deposit 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 in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk.

*Fair Value Measurements.* The Authority categorized the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs - other than quoted prices - included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. These levels are determined by the management's review of the type and substance of investments held by the Authority. At year end, all of the Authority's investments in Treasury Bonds were determined to be Level 2.

# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

### 3. Capital Assets

Capital asset activity for the year ended September 30, 2018, was as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Disposals</i>	<i>Transfers</i>	<i>Ending Balance</i>
Capital assets not being depreciated:					
Land	\$ 751,097	\$ -	\$ -	-	\$ 751,097
Work in progress	58,964	-	-	(24,345)	34,619
	810,061	-	-	(24,345)	785,716
Capital assets being depreciated:					
Buildings and improvements	11,532,983	126,654	(21,546)	24,345	11,662,436
Equipment and furnishings	2,141,696	120,435	(27,839)	-	2,234,292
Vehicles	27,000	-	-	-	27,000
	13,701,679	247,089	(49,385)	24,345	13,923,728
Less accumulated depreciation for:					
Buildings and improvements	(2,866,629)	(365,952)	24,921	-	(3,207,660)
Equipment and furnishings	(1,455,915)	(144,154)	21,134	-	(1,578,935)
Vehicles	(27,000)	-	-	-	(27,000)
	(4,349,544)	(510,106)	46,055	-	(4,813,595)
Total Capital Assets Being Depreciated, net	9,352,135	(263,017)	(3,330)	24,345	9,110,133
<b>Total Capital Assets, net</b>	<b>\$ 10,162,196</b>	<b>\$ (263,017)</b>	<b>\$ (3,330)</b>	<b>\$ -</b>	<b>\$ 9,895,849</b>

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, 2018, was as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Deductions</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
Contracts payable (bonds held by the County)	\$ 4,900,000	\$ -	\$ (100,000)	\$ 4,800,000	\$ 150,000
Note payable	310,000	-	(100,000)	210,000	105,000
	5,210,000	-	(200,000)	5,010,000	255,000
Premium on contracts payable	155,557	-	(6,222)	149,335	6,222
Compensated absences	1,068,935	1,197,110	(1,192,199)	1,073,846	1,073,846
	1,224,492	1,197,110	(1,198,421)	1,223,181	1,080,068
<b>Total Long-Term Debt</b>	<b>\$ 6,434,492</b>	<b>\$ 1,197,110</b>	<b>\$ (1,398,421)</b>	<b>\$ 6,233,181</b>	<b>\$ 1,335,068</b>

*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 \$100,000 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 1.40% (effectively of 3.58% at September 30, 2018).

Annual requirements, excluding compensated absences and the unamortized premium on contracts payable, to maturity on the total long-term obligations outstanding at September 30, 2018, are as follows:

<i>Year ended September 30,</i>	<i>Principal</i>	<i>Interest</i>
2019	\$ 255,000	\$ 150,155
2020	280,000	142,714
2021	200,000	135,250
2022	225,000	129,250
2023	250,000	120,250
2024-2028	1,550,000	480,153
2029-2033	1,850,000	209,750
2034	400,000	13,000
<b>Total</b>	<b>\$ 5,010,000</b>	<b>\$ 1,380,522</b>

# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

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### 5. Unearned Revenue

At September 30, 2018, unearned revenue consisted of the following:

<i>September 30,</i>		2018
Current year general fund carryover	\$	27,881
Unearned veterans funds		78,384
Unearned housing funds		11,957
Other unearned programmatic funds		22,233
<b>Total</b>	<b>\$</b>	<b>140,455</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 of 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, 2017, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	45
Inactive employees entitled to, but not yet receiving benefits	60
Active employees (vested)	65
Active employees (nonvested)	164
<b>Total Membership</b>	<b>334</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	
	2018	2017
Managerial	5.13%	8.61%
Professional	1.82%	3.41%
TOPS	3.24%	4.64%

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

At September 30, 2018, the Authority reported an asset of \$10,036,522 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2017, 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, 2017, the Authority's proportion was 19.352%. This was an increase from the Authority's proportion at December 31, 2016 of 18.324%.

For the year ended September 30, 2018, the Authority recognized pension expense of \$1,097,930. The Authority reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>	<i>Net Deferred Outflows (Inflows) of Resources</i>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 2,273,508	\$ (2,273,508)
Changes of assumptions	155,606	-	155,606
Changes in proportion and difference between employer contributions and share of contributions	3,205,101	458,164	2,746,937
Differences between expected and actual experience	212,160	321,579	(109,419)
	3,572,867	3,053,251	519,616
Contributions Subsequent to the Measurement Date	280,125	-	280,125
<b>Total</b>	<b>\$ 3,852,992</b>	<b>\$ 3,053,251</b>	<b>\$ 799,741</b>

# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

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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, 2019. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

2019	\$ 1,285,605
2020	887,766
2021	(1,017,383)
2022	(636,372)
<hr/>	
Total	\$ 519,616

*Actuarial Assumptions.* The total pension asset in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50% (including price inflation of 2.75%)
Salary increases	3.50% to 5.50%
Investment rate of return	7.50%, 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.

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The actuarial assumptions used in the December 31, 2017 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:

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-Term Expected Real Rate of Return</i>
U.S. Small Cap (Manager 1)	5.00%	4.50%
U.S. Small Cap (Manager 2)	10.00%	4.50%
International Developed Equity	10.00%	4.20%
U.S. Large Cap (Manager 1)	30.00%	4.00%
U.S. Large Cap (Manager 2)	5.00%	4.00%
Emerging Markets	10.00%	6.70%
Domestic Fixed Income	25.00%	1.00%
Real Estate (Manager 1)	2.50%	3.20%
Real Estate (Manager 2)	2.50%	3.20%

*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:

	<i>1% Decrease (6.5%)</i>	<i>Current Discount Rate (7.5%)</i>	<i>1% Increase (8.5%)</i>
<b>Authority's Net Pension Asset</b>	<b>\$ 5,720,858</b>	<b>\$ 10,036,522</b>	<b>\$ 13,653,590</b>

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



# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

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### 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, 2018, the Authority and its employees each contributed \$772,907. 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 4.25% of annual covered payroll.

*Employees Covered by Benefit Terms.* At December 31, 2017, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	46
Active employees	115
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<b>Total Membership</b>	<b>161</b>

### OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2018, the Authority reported a liability of \$1,978,090 for its proportionate share of the OPEB liability. The OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from December 31, 2015. The Authority's proportion of the net OPEB liability 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, 2017, the Authority's proportion was 4.299%.

# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

For the year ended September 30, 2018, the Authority recognized OPEB expense of \$149,890. The Authority reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>	<i>Net Deferred Outflows (Inflows) of Resources</i>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 229,261	\$ (229,261)
Differences between expected and actual experience	297,703	-	297,703
	297,703	229,261	68,442
Contributions Subsequent to the Measurement Date	309,244	-	309,244
<b>Total</b>	<b>\$ 606,947</b>	<b>\$ 229,261</b>	<b>\$ 377,686</b>

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 OPEB liability for the year ending September 30, 2019. Other amounts reported as OPEB-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

2019	\$ 21,731
2020	21,731
2021	21,731
2022	3,249
<b>Total</b>	<b>\$ 68,442</b>

*Actuarial Assumptions.* The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.00%
Salary increases	3.50% to 5.50%
Investment rate of return	7.50%, net of OPEB investment expenses
Health Care Trend Rates	Initial trend of 9.00% gradually decreasing to 3.50%
Mortality	RP-2000 Combined Healthy Annuitant Mortality Tables projected 20 years with U.S. Projection Scale BB.

The actuarial assumptions used in the December 31, 2017 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 OPEB 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:

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-Term Expected Real Rate of Return</i>
U.S. Small Cap (Manager 1)	5.00%	4.50%
U.S. Small Cap (Manager 2)	10.00%	4.50%
International Developed Equity	10.00%	4.20%
U.S. Large Cap (Manager 1)	30.00%	4.00%
U.S. Large Cap (Manager 2)	5.00%	4.00%
Emerging Markets	10.00%	6.70%
Domestic Fixed Income	25.00%	1.00%
Real Estate (Manager 1)	2.50%	3.20%
Real Estate (Manager 2)	2.50%	3.20%

*Discount Rate.* The discount rate used to measure the total OPEB liability 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*Sensitivity of the Net Pension Asset to Changes in the Discount Rate.* The following presents the net OPEB liability of the Authority, calculated using the discount rate of 7.5%, as well as what the Authority's net OPEB liability 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:

	<i>1% Decrease (6.5%)</i>	<i>Current Discount Rate (7.5%)</i>	<i>1% Increase (8.5%)</i>
<b>Authority's Net OPEB Liability</b>	<b>\$ 2,585,532</b>	<b>\$ 1,978,090</b>	<b>\$ 1,467,963</b>

# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

*Sensitivity of the Net Other Postemployment Benefits Asset to Changes in the Healthcare Cost Trend Rate Assumption.* The following presents the net other postemployment benefits liability of the Authority, as well as what the Authority's net other postemployment benefits liability would be if it were calculated using healthcare cost trend rates that are 1% lower (8.0% decreasing to 2.5%) or 1% higher (10.0% decreasing to 4.5%) than the current healthcare cost trend rates:

	<i>Healthcare Cost</i>		
	<i>1% Decrease</i>	<i>Trend Rates</i>	<i>1% Increase</i>
	<i>(8.0% Decreasing</i>	<i>(9.0% Decreasing</i>	<i>(10.0% Decreasing</i>
	<i>to 2.5%)</i>	<i>to 3.5%)</i>	<i>to 4.5%)</i>
<b>Authority's Net Other Postemployment Benefits Liability</b>	<b>\$ 1,385,204</b>	<b>\$ 1,978,000</b>	<b>\$ 2,679,395</b>

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

### 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.

### 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 expects 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, 2018.

# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

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### 12. Net Position

#### Net Investment in Capital Assets

As of September 30, 2018, the Authority's net investment in capital assets was comprised of the following:

*September 30, 2018*

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Invested in Capital Assets:	
Capital assets not being depreciated	\$ 785,716
Capital assets being depreciated, net	9,110,133
	<hr/>
	9,895,849
Related Debt:	
Contracts payable	4,800,000
Note payable	210,000
Unamortized premium	149,335
	<hr/>
	5,159,335
	<hr/>
<b>Total Net Investment in Capital Assets</b>	<b>\$ 4,736,514</b>

#### Restricted Net Position

The Authority's restricted net position represents amounts held in a qualified trust for the purpose of providing pension and OPEB benefits to qualified employees and retirees. This amount represents an excess of assets held in trust over the actuarial accrued liability for providing pension and OPEB 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, 2018, unrestricted net position was comprised of the following:

*September 30, 2018*

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Designated for equipment replacement	\$ 1,031,401
Designated for bond payments and accounts receivable pledges	5,073,393
Undesignated	3,593,275
	<hr/>
<b>Total Unrestricted Net Position</b>	<b>\$ 9,698,069</b>

# Kalamazoo Community Mental Health and Substance Abuse Services

## Notes to Financial Statements

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### 13. New Accounting Standards

For the year ended September 30, 2018, the Authority implemented the following new pronouncement:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

#### *Summary*

GASB Statement No. 75 requires governments that participate in defined benefit other postemployment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

Net position as previously stated September 30, 2017	\$ 20,886,347
Adoption of GASB 75 Net Other Post-Employment Benefits Liability	(1,863,401)
Deferred outflows	412,884
<hr/>	
<b>Net Position as Restated June 30, 2017</b>	<b>\$ 19,435,830</b>

## Required Supplementary Information

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# Kalamazoo Community Mental Health and Substance Abuse Services

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

<i>Year ended September 30,</i>	2015	2016	2017	2018
Authority's proportion of the net pension asset	34.414%	17.724%	18.324%	19.352%
Authority's proportionate share of the net pension asset	\$ 14,791,176	\$ 4,634,263	\$ 6,597,409	\$ 10,036,522
Authority's covered payroll	10,422,152	10,009,846	10,652,479	11,833,751
Authority's proportionate share of the net position asset as a percentage of its covered payroll	141.900%	46.300%	61.900%	84.813%
Plan fiduciary net position as a percentage of its covered payroll	126.600%	115.700%	121.000%	129.410%

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

## Defined Benefit Pension Plan Schedule of Contributions

<i>Fiscal Year Ended September 30,</i>	<i>Actuarially Determined Contribution</i>	<i>Contributions in Relation to the Actuarially Determined Contribution</i>	<i>Contribution Deficiency (Excess)</i>	<i>Covered Payroll</i>	<i>Contributions as Percentage of Covered Payroll</i>
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%
2018	550,516	550,516	-	11,833,751	4.7%

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

## Retiree Healthcare Plan Schedule of Authority's Proportionate Share of the Net OPEB Liability

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<i>Year ended September 30,</i>	<b>2018</b>
Authority's proportion of the net OPEB liability	4.299%
Authority's proportionate share of the net OPEB liability	\$ (1,978,090)
Authority's covered payroll	5,779,519
Authority's proportionate share of the net OPEB liability as a percentage of its covered payroll	34.230%
Plan fiduciary net position as a percentage of its covered payroll	56.085%

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

GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# Kalamazoo Community Mental Health and Substance Abuse Services

## Retiree Healthcare Plan Schedule of Contributions

<i>Fiscal Year Ended September 30,</i>	<i>Actuarially Determined Contribution</i>	<i>Contributions in Relation to the Actuarially Determined Contribution</i>	<i>Contribution Deficiency (Excess)</i>	<i>Covered Payroll</i>	<i>Contributions as Percentage of Covered Payroll</i>
2018	\$ 228,973	\$ 209,892	\$ 19,081	\$ 5,779,519	3.6%

GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

## Single Audit

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## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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), which comprise the statement of net position as of September 30, 2018, and the related statements of revenues, expenses, and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 22, 2019.

### ***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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, LLP*

Kalamazoo, Michigan

March 22, 2019



## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

Kalamazoo Community Mental Health and  
Substance Abuse Services  
Kalamazoo, Michigan

### **Report on Compliance for Each Major Federal Program**

We have audited Kalamazoo Community Mental Health and Substance Abuse Services' (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2018. The Authority's major federal program is identified in the summary of auditor's 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.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's major federal program 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 audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) 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 the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.



### *Opinion on Its 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 its major federal program for the year ended September 30, 2018.

### **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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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. 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.

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.





## Report on Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance*

We have audited the financial statements of the Authority as of and for the year ended September 30, 2018, and have issued our report thereon dated March 22, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming 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 the 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 additional 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.

*BDO USA, LLP*

Kalamazoo, Michigan

March 22, 2019

## Schedule of Expenditures of Federal Awards

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# Kalamazoo Community Mental Health and Substance Abuse Services

## Schedule of Expenditures of Federal Awards September 30, 2018

Federal Agency/Cluster/Program Title	Federal			Total Subawards	Federal Expenditures
	CFDA Number	Pass-Through Entity	Pass-Through/Grantor Number		
U.S. Department of Health and Human Services:					
Medicaid Cluster -					
Medical Assistance Program:					
University of Michigan Liaison Grant	93.778	UofM	E20171470-00	\$ -	\$ 20,341
Community Health Access Program (CHAP)	93.778	UofM	N/A	-	2,540
OBRA - PASARR	93.778	MDHHS	N/A	125,264	137,915
Project Assert	93.778	MDHHS	N/A	-	50,213
SUD Block Grant STR Fundings	93.778	MDHHS	N/A	-	1,773
<b>Total Medicaid Cluster</b>				<b>125,264</b>	<b>212,782</b>
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	Direct	1U79SM062448-01	-	1,317,216
Projects for Assistance in Transition from Homelessness (PATH)	93.150	MDHHS	2X06SM016023-15	-	49,255
Substance Abuse and Mental Services - Projects of Regional and National Significance	93.243	Direct	1H79SM062205-01	-	369,485
Block Grants for Community Mental Health Services:					
Behavioral Health Consultant Grant	93.958	MDHHS	E20180089-00	-	31,067
Enhanced Nutrition Care Coordination & Medical Culinary Ed Programs	93.958	MDHHS	E20180053-001	-	101,518
Keystone Drop in Center	93.958	MDHHS	E20180052-00	-	4,207
Veteran Navigator	93.958	MDHHS	E20182997-00	-	32,136
Statewide PMTO Training and TA	93.958	MDHHS	E20180090-00	-	317,420
<b>Total Block Grants for Community Mental Health Services</b>				<b>-</b>	<b>486,348</b>
Block Grants for the Prevention and Treatment of Substance Abuse -					
Opioid Outreach and Recovery Program	93.959	MDHHS	N/A	-	146,172
<b>Total U.S. Department of Health and Human Services</b>				<b>125,264</b>	<b>2,581,258</b>

# Kalamazoo Community Mental Health and Substance Abuse Services

## Schedule of Expenditures of Federal Awards September 30, 2018

<i>Federal Agency/Cluster/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity</i>	<i>Pass-Through/ Grantor Number</i>	<i>Total Subawards</i>	<i>Federal Expenditures</i>
<b>U.S. Department of Housing and Urban Development:</b>					
Emergency Solutions Grant Program	14.231	MSHDA	HML-2017-5395-ESF	\$ -	\$ 52,708
<b>Continuum of Care Program:</b>					
HUD Grant (HBI) - Renewal 12 (1 yr.)	14.267	Direct	MI0183L5F071609	-	270,478
HUD Grant (HBI) - Renewal 13 (1 yr.)	14.267	Direct	MI0183L5F07170	-	79,448
HUD Grant (HBII) - Renewal 9 (1 yr.)	14.267	Direct	MI0183L5F071609	-	114,426
HUD Grant (HBII) - Renewal 10 (1 yr.)	14.267	Direct	MI0184L5F071710	-	171,517
HUD Grant (HBIII) - Renewal 9 (1 yr.)	14.267	Direct	MI0185L5F071609	-	58,559
HUD Grant (Full Count) - Renewal 9 (1 yr.)	14.267	Direct	MI0182L5F071609	-	43,697
HUD Grant (Full Count) - Renewal 10 (1 yr.)	14.267	Direct	MI0182L5F071710	-	3,740
HUD Grant (1st Base) - Renewal 7 (1 yr.)	14.267	Direct	MI0295L5F071507	-	20,682
HUD Grant (2nd Base) - Renewal 6 (1 yr.)	14.267	Direct	MI0296L5F071507	-	20,893
HUD Grant (2nd Base) - Renewal 7 (1 yr.)	14.267	Direct	MI0296L5F071608	-	36,245
HUD Grant (3rd Base) - Renewal 5 (1 yr.)	14.267	Direct	MI0346L5F071504	-	32,718
HUD Grant (3rd Base) - Renewal 6 (1 yr.)	14.267	Direct	MI0346L5F071706	-	53,741
HUD Grant (Grand Slam) - Renewal 6 (1 yr.)	14.267	Direct	MI0178L5F07167	-	41,731
HUD Grant (Grand Slam) - Renewal 7 (1 yr.)	14.267	Direct	MI0178L5F1607	-	22,168
HUD Grant (Home Run) - Renewal 7 (1 yr.)	14.267	KCPHC	MI0332L5F071607	-	37,493
HUD Grant (Home Run) - Renewal 8 (1 yr.)	14.267	KCPHC	MI0332L5F07178	-	9,212
Total Continuum of Care Program				-	1,016,748
Total U.S. Department of Housing and Urban Development				-	1,069,456
<b>U.S. Department of Education -</b>					
Race to the Top - Early Learning Challenge	84.412	MDHHS	E20182623-001	84,152	84,152
Total Expenditures of Federal Awards				\$ 209,416	\$ 3,734,866

*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 Year Ended September 30, 2018

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### 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, 2018. 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:

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

### 4. Reconciliation to Financial Statements

*Year ended September 30, 2018*

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Federal and state grants per financial statements	\$	8,999,424
Less state grants		5,264,558
<b>Expenditures of Federal Awards</b>		<b>\$ 3,734,866</b>

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# Kalamazoo Community Mental Health and Substance Abuse Services

## Summary Schedule of Findings and Questioned Costs Year Ended September 30, 2018

### Section I - Summary of Auditor's Results

#### *Financial Statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:  
Material weaknesses identified? No  
Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

#### *Federal Awards*

Internal control over major federal programs:  
Material weaknesses identified? No  
Significant deficiencies identified? None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

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

Identification of major federal programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Continuum of Care Program	14.267

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

Auditee qualified as a low-risk auditee? Yes

### Section II - Financial Statements Findings

No matters reported.

### Section III - Federal Award Findings and Questioned Costs

No matters reported.