



Integrated Services of Kalamazoo

Financial Statements
and Single Audit Act Compliance
Year Ended September 30, 2022

Integrated Services of Kalamazoo

Financial Statements and Single Audit Act Compliance
Year Ended September 30, 2022

Integrated Services of Kalamazoo

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Independent Auditor's Report

Integrated Services of Kalamazoo
Kalamazoo, Michigan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Integrated Services of Kalamazoo (the Authority) which comprise the statement of net position as of September 30, 2022, and related statements of revenues, expenses, and changes in net position and cash flows for the year ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of the Authority's proportionate share of the net pension asset and contributions, and schedules of the Authority's proportionate share of the net OPEB liability and contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis 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 GAAS. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023, 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

March 30, 2023

Management Discussion and Analysis

Integrated Services of Kalamazoo

Management Discussion and Analysis

This section of Integrated Services of Kalamazoo's (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, 2022. Please review it in conjunction with the independent auditor's report, the financial statements, the notes to the financial statements, and the required supplementary information presented in this financial report.

Integrated Services of Kalamazoo, formerly known as 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 information contained in this MD&A should be considered in conjunction with the information contained in the financial statements for the year ended September 30, 2022. 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 \$46,337,777 as of September 30, 2022. This represents an increase of \$20,929,975 from September 30, 2021, when the Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$25,407,802.

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Integrated Services of Kalamazoo

Management Discussion and Analysis

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

September 30,

	2022	2021	Change	% Change
Assets				
Current	\$ 41,122,149	\$ 40,273,435	\$ 848,714	2.11
Capital assets, net	13,103,626	9,273,750	3,829,876	41.30
Leases receivable	168,522	-	168,522	100.00
Net pension asset	12,726,932	6,843,869	5,883,063	85.96
Total Assets	67,121,229	56,391,054	10,730,175	
Deferred Outflows of Resources	2,109,324	2,547,758	(438,434)	(17.21)
Liabilities				
Current liabilities	9,971,790	24,054,292	(14,082,502)	(58.54)
Long-term liabilities	5,271,741	5,807,320	(535,579)	(9.22)
Net other postemployment benefits liability	735,905	1,027,899	(291,994)	(28.41)
Total Liabilities	15,979,436	30,889,511	(14,910,075)	
Deferred Inflows of Resources	6,913,340	2,641,499	4,271,841	161.72
Net Position				
Net investment in capital assets	9,471,053	4,858,748	4,612,305	94.93
Restricted	8,671,891	9,472,779	(800,888)	(8.45)
Unrestricted	28,194,833	11,076,275	17,118,558	154.55
Total Net Position	\$ 46,337,777	\$ 25,407,802	\$ 20,929,975	

The amount of the Authority's net investment in capital assets at September 30, 2022 is \$9,471,053 or 20.4% of total net position. Unrestricted net position of \$28,194,833 represents 60.8% of total net position. The remaining net position of \$8,671,891, or 18.8%, represents amounts held in trust for payment of pension benefits in excess of the actuarial accrued liability for providing such benefits. The increase in current assets is related to the Authority's participation in the State of Michigan's Certified Community Behavioral Health Clinics (CCBHC) Demonstration. This demonstration designates specific covered services that are paid through a prospective payment model that is earned for each client for each day of service. This revenue is earned and retained by the CCBHC demonstration site. The Authority's cost for providing these services was approximately \$19,000,000 less than the revenue earned.

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Integrated Services of Kalamazoo

Management Discussion and Analysis

The following summarizes the revenues, expenses, and change in net position for the years ended September 30, 2022 and 2021:

Year ended September 30,

	2022	2021	Change	% Change
Operating Revenues				
Medicaid	\$103,636,280	\$ 74,486,926	\$ 29,149,354	39.13
Federal and state grants	23,494,544	17,140,207	6,354,337	37.07
Charges for services	906,749	1,315,787	(409,038)	(31.09)
PA2 funds	180,400	178,317	2,083	1.17
Other	523,038	797,359	165,406	20.74
Total Operating Revenues	128,741,011	93,918,596	35,262,142	
Operating Expenses				
Mental illness adult population	41,333,191	38,862,792	2,470,399	6.36
Intellectual and developmental disabilities population	34,240,829	30,050,929	4,189,900	13.94
Youth services	16,219,259	14,905,134	1,314,125	8.82
Multi-population	8,347,789	2,633,111	5,714,678	217.03
Management and general	9,194,439	7,536,406	1,658,033	22.00
Total Operating Expenses	109,335,507	93,988,372	15,347,135	
Operating Gain (Loss)	19,405,504	(69,776)	19,915,007	
Non-Operating Revenues (Expenses)				
County appropriation	1,550,400	1,550,400	-	-
Restricted donations	-	3,750,550	(3,750,550)	100.00
Interest revenue	96,231	133,078	(36,847)	(27.69)
Interest expense	(122,160)	(132,411)	10,251	(7.74)
Total Non-Operating Revenues (Expenses)	1,524,471	5,301,617	(3,777,146)	
Change in Net Position	20,929,975	5,231,841	15,698,134	
Net Position, beginning of year	25,407,802	20,175,961	5,231,841	
Net Position, end of year	\$ 46,337,777	\$ 25,407,802	\$ 20,929,975	

Financial Operations Highlights

- The increase in Medicaid revenue relates to actual increases in reimbursable Medicaid expense earned from SWMBH.
- The increase in federal and state grants is due to additional grant awards to benefit the Kalamazoo community.
- The increase in the mental illness adult population expense relates to increases in staff and service costs. Additionally, the CCBHC demonstration has increased the number of people served.
- The increase in the youth services population expense relates to increases in staff and service costs. Additionally, the CCBHC demonstration has increased the number of people served.

Integrated Services of Kalamazoo

Management Discussion and Analysis

- The increase in management and general expenses is due to the increase in administrative roles related to the CCBHC demonstration and the increasing costs of staff and contracted services.

Capital Assets and Long-Term Debt

Capital Assets

As of September 30, 2022, the Authority had approximately \$13.1 million invested in a variety of capital assets as reflected in the following schedule:

<i>September 30,</i>	2022	2021
Land	\$ 838,097	\$ 883,097
Work-in-progress	521,217	156,114
Buildings and improvements	11,952,349	11,862,163
Equipment and furnishings	2,523,052	2,323,750
Vehicles	87,897	87,897
Right of use lease assets	3,866,056	-
	19,788,668	15,313,021
Less: accumulated depreciation	6,685,042	6,039,271
Property and Equipment, Net	\$ 13,103,626	\$ 9,273,750

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

Long-Term Debt

At the end of the current fiscal year, the Authority had no debt outstanding. The decrease is the result of making debt payments in accordance with amortization schedules.

<i>September 30,</i>	2022	2021
Contracts payable	\$ -	\$ 4,275,000
Premium on contracts payable	-	140,002
Compensated absences	1,639,168	1,392,318
Total Long-Term Debt	\$ 1,639,168	\$ 5,807,320

Factors Impacting the Future

There are three major factors that will adversely affect the future of Integrated Services of Kalamazoo:

- Certified Community Based Health Clinics (CCBHC)
- Behavioral Health Fee Schedule, Standard Cost Allocation and Reporting
- National Shortage of Mental Health Professionals and Direct Care Workers

Integrated Services of Kalamazoo

Management Discussion and Analysis

Certified Community Based Behavioral Health Clinics (CCBHC)

In 2016, MDHHS applied to CMS to become a CCBHC Demonstration state under Section 223 of the federal Protecting Access to Medicare Act of 2014 (PAMA). That request was approved on August 5, 2020, when the Federal CARES Act of 2020 authorized two additional states—Michigan and Kentucky—to join the demonstration. As a result, MDHHS was approved for a two-year demonstration that started October 1, 2021. ISK was certified as a CCBHC Certification site.

The CMS CCBHC Demonstration requires states and their certified sites to provide a robust set of coordinated, integrated, and comprehensive services to all persons with any mental illness or substance use disorder diagnosis. Moreover, the demonstration requires and emphasizes 24/7/365 crisis response services (e.g., mobile crisis services). Other critical elements include but are not limited to: strong accountability in terms of financial and quality metric reporting; formal coordination with primary and other care settings to provide intensive care management and transitions; linkage to social services, criminal justice/law enforcement, and educational systems; and an emphasis on providing services to veterans and active-duty service members. To account for these requirements, the state must create a Prospective Payment System (PPS) reimbursement structure that finances CCBHC services at an enhanced payment rate to properly cover costs and offer greater financial predictability and viability. The PPS is integral to sustaining expanded services, investments in the technological and social determinants of care, and serving all eligible Michiganders regardless of insurance or ability to pay.

The CCBHC funding for 2022 resulted in a significant surplus for the Authority. MDHHS is evaluating the financial and clinical outcomes of the first year of the demonstration. The prospective payment amount in the second year will be approximately 50% of the demonstration amount in year one, resulting in a significant reduction of revenue. Management will continue to monitor outcomes in the second year of the demonstration.

Behavioral Health Fee Schedule, Standard Cost Allocation, and Reporting

Milliman, Inc. (Milliman) has been retained by the State of Michigan, Department of Health and Human Services (MDHHS) to provide actuarial and consulting services related to the development of a behavioral health fee schedule for its behavioral health managed care program. The impetus behind this project, among other objectives, was to better understand the observed variation in benefit cost and administrative expenses reported by the ten prepaid inpatient health plans (PIHPs) responsible for managing the care of the behavioral health managed care program enrollees.

In order to manage this benefit, the PIHPs contract with 46 Community Mental Health Service Programs (CMHSPs) who often provide direct services to individuals, contract with network providers for service provision, and provide managed care administrative services. Milliman observed that the variation may be attributable to differences in cost allocation methods employed by the CMHSPs and that variations in cost allocation methodology make it difficult to understand the actual variation in resources required to provide these benefits, particularly when the services are provided directly by a CMHSP and when compared to the cost of services provided by contracted network providers.

To support the development of a behavioral health fee schedule, MDHHS convened a Rate Development workgroup. The work of this group is to develop independent rate models for each of the services provided in the Behavioral Health system. These templates would be used as a point of reference for discussing rate variations.

Integrated Services of Kalamazoo

Management Discussion and Analysis

One of the key issues affecting the current unit cost reporting is inconsistency in the approach to report provider administrative costs versus other administrative costs, including both managed care administration and administration associated with the Michigan's Mental Health Code. As a result, a Standard Cost Allocation workgroup was started to provide guidance to the CMHSPs and PIHPs to achieve greater consistency in reporting provider administration versus other administration. The outcome of this standard cost allocation methodology will also support future PIHP Medicaid medical loss ratio (MLR) reporting required by the federal government, as well as the Encounter Quality Initiative (EQI) reporting.

As a result of these workgroups, ISK will need to evaluate the structure of its General Ledger and Electronic Health Record Systems to accommodate changes to comply with these new requirements.

Lastly, to provide further clarity, the workgroups are recommending changes to service codes to add modifiers to inform rate variations due to varying levels of provider credentials, i.e., Doctor, Master, Bachelor. This change will significantly increase the number of billable codes that CMHSP's will need to manage.

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

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

The behavioral health workforce is one of the fastest growing workforces in the country. 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.

The current wages that can be paid based on reimbursement rates is inadequate for CMHSPs and providers to compete with private businesses to recruit, hire and retain direct care workers and Licensed Master level Social Workers (LMSW). Low wages for direct care staff is contributing to the serious workforce shortages for paraprofessionals in the Authority's behavioral health and intellectual and developmental disabilities system of care. With increased competition from Hospital and Primary Care Physician groups to add LMSW staff for integrated and care coordination efforts, CMHSP's are needing to significantly increase wages for this large group of employees who deliver direct services.

Integrated Services of Kalamazoo

Management Discussion and Analysis

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 Integrated Services of Kalamazoo. Questions concerning any of the information provided in this report or request for additional information may be addressed to:

Finance Director
Integrated Services of Kalamazoo
2030 Portage Street
Kalamazoo, Michigan 49001

Financial Statements

Integrated Services of Kalamazoo

Statement of Financial Position

September 30, 2022

Assets	
Current Assets	
Cash and cash equivalents	\$ 23,561,439
Investments	3,771,120
Accounts receivable	4,864,667
Due from State of Michigan	328,864
Due from other governments	8,062,234
Prepays	533,825
Total Current Assets	41,122,149
Non-Current Assets	
Capital assets not being depreciated	1,359,314
Capital assets being depreciated, net	11,744,312
Leases receivable	168,522
Net pension asset	12,726,932
Total Non-Current Assets	25,999,080
Total Assets	67,121,229
Deferred Outflows of Resources	
Deferred pension amounts	1,733,222
Deferred other postemployment benefits amounts	376,102
Total Deferred Outflows of Resources	\$ 2,109,324
Liabilities	
Current Liabilities	
Accounts payable	\$ 6,515,297
Accrued liabilities	776,351
Due to State of Michigan	1,166,181
Due to other governments	47
Due to providers	1,215,508
Unearned revenue	298,406
Current portion of lease liability	229,706
Total Current Liabilities	10,201,496
Non-Current Liabilities	
Lease liability, net of current portion	3,402,867
Compensated absences	1,639,168
Net other postemployment benefits liability	735,905
Total Non-Current Liabilities	5,777,940
Total Liabilities	15,979,436
Deferred Inflows of Resources	
Deferred pension amounts	5,788,263
Deferred other postemployment benefits amounts	972,463
Deferred lease amounts	152,614
Total Deferred Inflows of Resources	6,913,340
Net Position	
Net investment in capital assets	9,471,053
Restricted for pension benefits	8,671,891
Unrestricted	28,194,833
Total Net Position	\$ 46,337,777

See accompanying notes to financial statements.

Integrated Services of Kalamazoo

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

Operating Revenues	
Medicaid	\$ 103,636,280
Federal and state grants	23,494,544
Charges for services	906,749
PA2 funds	180,400
Other revenues	523,038
Total Operating Revenues	128,741,011
Operating Expenses	
Mental health program services:	
Mental illness adult population	41,333,191
Intellectual and development disabilities population	34,240,829
Youth services	16,219,259
Multi-population	8,347,789
Management and general	9,194,439
Total Operating Expenses	109,335,507
Operating Income	19,405,504
Non-Operating Revenues (Expenses)	
County appropriation	1,550,400
Interest revenue	96,231
Interest expense	(122,160)
Total Non-Operating Revenues (Expenses)	1,524,471
Change in Net Position	20,929,975
Net Position, beginning of year	25,407,802
Net Position, end of year	\$ 46,337,777

See accompanying notes to financial statements.

Integrated Services of Kalamazoo

Statement of Cash Flows

Year ended September 30, 2022

Cash Flows from Operating Activities	
Received from providing services	\$ 108,921,927
Payments to suppliers	(85,426,271)
Payments to employees for services	(26,379,172)
Net Cash Used in Operating Activities	(2,883,516)
Cash Flows from Non-Capital Financing Activity	
County appropriation	1,550,400
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(699,603)
Payments on long-term debt	(4,415,002)
Interest paid	(122,160)
Net Cash Used in Capital and Related Financing Activities	(5,236,765)
Cash Flows from Investing Activities	
Sale of investments	4,534,487
Interest received	96,231
Net Cash Provided by Investing Activities	4,630,718
Decrease in Cash and Cash Equivalents	(1,939,163)
Cash and Cash Equivalents, beginning of year	25,500,602
Cash and Cash Equivalents, end of year	\$ 23,561,439
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities	
Operating income	\$ 19,405,504
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation expense	348,061
Loss on disposal of fixed assets	90,012
Net change in right of use lease asset and lease liability	64,227
Changes in:	
Accounts receivable	410,925
Due to (from) State of Michigan	116,413
Due from other governments	(8,062,234)
Due to providers	291,090
Prepays	238,463
Net pension asset and related deferred amounts	(1,502,417)
Lease receivable and related deferred amounts	(15,908)
Accounts payable	(1,439,669)
Accrued liabilities	(343,637)
Due to other governments	(12,575,278)
Unearned revenue	(40,939)
Compensated absences	246,850
Net OPEB liability and related deferred amounts	(114,979)
Net Cash Provided by (Used in) Operating Activities	\$ (2,883,516)

See accompanying notes to financial statements.

Integrated Services of Kalamazoo

Notes to Financial Statements

1. Nature of Business and Summary of Accounting Policies

The financial statements of Integrated Services of Kalamazoo, formerly known as 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.

Financial Statements

The financial statements report information on all of the activities of Integrated Services of Kalamazoo.

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.

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.

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 Authority.

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 principle operating revenues of the Authority's operating fund are contract revenues from the Michigan Department of

Integrated Services of Kalamazoo

Notes to Financial Statements

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 non-operating 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.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

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.

Integrated Services of Kalamazoo

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

Asset Category	Useful Life (Years)
Buildings and improvements	25-40
Equipment and furnishings	3-20
Vehicles	5

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

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 other postemployment benefits (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 on a straight-line basis, which approximates the effective interest rate method. Contracts payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expense when incurred. The Authority has no long-term debt at September 30, 2022.

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 5% 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

Integrated Services of Kalamazoo

Notes to Financial Statements

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, net OPEB liability, and future lease revenue.

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.

Leases

Lessee

The Authority is a party to multiple leases of nonfinancial assets as a lessee. The Authority recognizes a lease liability and an intangible right-of-use lease asset (lease asset) in the financial statements.

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its leases and will remeasure lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of any lease liability.

Lessor

The Authority has leased to third-parties multiple nonfinancial assets. The Authority recognizes a lease receivable and a deferred inflow of resources in the financial statements where applicable.

At the commencement of the lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments receivable. The deferred inflow of

Integrated Services of Kalamazoo

Notes to Financial Statements

resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Authority determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The Authority uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee. The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

2. Deposits and Investments

Deposits and Investments

Following is a reconciliation of deposit and investment balances as of September 30, 2022:

September 30, 2022

Cash and Investments

Statement of net position:

Cash and cash equivalents	\$ 23,561,439
Investments	3,771,120

September 30, 2022

Deposits and Investments

Checking/savings accounts	\$ 23,560,809
Certificates of deposit (due within one year)	3,771,120
Cash on hand	630

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 September 30, 2022, \$24,406,923 of the Authority's bank balance of \$28,428,043 was exposed to credit risk because it was uninsured and uncollateralized.

Integrated Services of Kalamazoo

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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 September 30, 2022, 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.

Credit Risk - State 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 September 30, 2022, all of the Authority's investments in Certificates of Deposit were determined to be Level 1.

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Integrated Services of Kalamazoo

Notes to Financial Statements

3. Capital Assets

Capital asset activity for the year ended September 30, 2022 was as follows:

September 30, 2022

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	\$ 883,097	\$ -	\$ (45,000)	\$ -	\$ 838,097
Work-in-progress	156,114	511,783	(45,012)	(101,668)	521,217
	1,039,211	511,783	(90,012)	(101,668)	1,359,314
Capital assets being depreciated:					
Buildings and improvements	11,862,163	-	-	90,186	11,952,349
Equipment and furnishings	2,323,750	187,820	-	11,482	2,523,052
Vehicles	87,897	-	-	-	87,897
Right of use lease assets	-	3,866,056	-	-	3,866,056
	14,273,810	4,053,876	-	101,668	18,429,354
Less: accumulated depreciation for:					
Buildings and improvements	(4,027,348)	(245,860)	-	-	(4,273,208)
Equipment and furnishings	(1,961,851)	(88,245)	-	-	(2,050,096)
Vehicles	(50,072)	(13,956)	-	-	(64,028)
Right of use lease assets	-	(297,710)	-	-	(297,710)
	(6,039,271)	(645,771)	-	-	(6,685,042)
Total Capital Assets Being Depreciated, Net	8,234,539	3,408,105	-	101,668	11,744,312
Capital Assets, Net	\$ 9,273,750	\$ 3,919,888	\$ (90,012)	\$ -	\$13,103,626

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

4. Long-Term Debt

Long-term debt activity for the year ended September 30, 2022 was as follows:

September 30, 2022

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Contracts payable (bonds held by the county)	\$ 4,275,000	\$ -	\$(4,275,000)	\$ -	\$ -
Premium on contracts payable	140,002	-	(140,002)	-	-
Compensated absences	1,392,318	246,850	-	1,639,168	-
Total Long-Term Debt	\$ 5,807,320	\$ 246,850	\$(4,415,002)	\$ 1,639,168	\$ -

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 were fully repaid during the year ended September 30, 2022.

Integrated Services of Kalamazoo

Notes to Financial Statements

5. Defined Benefit Pension Plan

General Information About the Plan

Plan Description - The Authority participates in the Kalamazoo County Employees Retirement System (the Plan), a multi-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 five-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 eight years. Normal retirement age is 55 with 25 years of service, or age 60 with eight years of service. Early retirement is available at age 55 with eight years of service with an age reduction factor.

Employees Covered by Benefit Terms - At December 31, 2021, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	66
Inactive employees entitled to, but not yet receiving benefits	68
Active employees (vested)	76
Active employees (non-vested)	260
Total Membership	470

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:

<i>Calendar year</i>	2022 (%)	2021 (%)
Managerial	5.08	6.13
Professional	5.18	3.98
TOPS	4.20	3.95

Integrated Services of Kalamazoo

Notes to Financial Statements

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

At September 30, 2022, the Authority reported an asset of \$12,726,932 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2021, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation rolled forward from December 31, 2020. 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, 2021. At December 31, 2021, the Authority's proportion was 20.049%. This was an increase from the Authority's proportion at December 31, 2020 of 19.235%.

For the year ended September 30, 2022, the Authority recognized pension expense (benefit) of \$(1,502,417). The Authority reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 5,492,029	\$ (5,492,029)
Changes of assumptions	330,142	-	330,142
Changes in proportion and difference between employer contributions and share of contributions	197,529	260,895	(63,366)
Differences between expected and actual experience	529,522	35,339	494,183
	1,057,193	5,788,263	(4,731,070)
Contributions subsequent to the measurement date	676,029	-	676,029
Total	\$ 1,733,222	\$ 5,788,263	\$ (4,055,041)

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as an increase in the net pension asset for the year ending September 30, 2023. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending September 30,

2023	\$ (440,818)
2024	(2,021,389)
2025	(1,155,314)
2026	(1,113,549)
Total	\$ (4,731,070)

Integrated Services of Kalamazoo

Notes to Financial Statements

Actuarial Assumptions - The total pension asset in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	3.75% to 5.25%
Investment rate of return	7.25%
Mortality	The Pub-2010 Amount-Weighted, General and Safety, Employee, Healthy Retiree and Disabled Retiree, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study conducted in 2018, covering years 2014 to 2018.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Small-Cap (Manager 1)	5.00	4.12
U.S. Small-Cap (Manager 2)	10.00	4.12
International Developed Equity	10.00	3.42
U.S. Large-Cap (Manager 1)	30.00	3.62
U.S. Large-Cap (Manager 2)	5.00	3.62
Emerging Markets	10.00	5.22
Domestic Fixed Income	25.00	(0.88)
Real Estate (Manager 1)	2.50	1.82
Real Estate (Manager 2)	2.50	1.82

Discount Rate - The discount rate used to measure the total pension asset was 7.25%. 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.

Integrated Services of Kalamazoo

Notes to Financial Statements

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 7.25%, as well as what the Authority's net pension asset would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Authority's Net Pension Asset	\$ 7,319,061	\$ 12,726,932	\$ 17,251,280

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

6. 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, 2022, the Authority and its employees each contributed \$1,210,815. 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.

7. 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 2.84% of annual covered payroll.

Employees Covered by Benefit Terms - At December 31, 2019, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	47
Active employees	79
Total Membership	126

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

At September 30, 2022, the Authority reported a liability of \$735,905 for its proportionate share of the OPEB liability. The OPEB liability was measured as of December 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled

Integrated Services of Kalamazoo

Notes to Financial Statements

forward from December 31, 2019. 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, 2019. At December 31, 2021, the Authority's proportion was 1.250%.

For the year ended September 30, 2022, the Authority recognized OPEB expense (benefit) of \$(101,397). The Authority reported OPEB-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 115,337	\$ 329,522	\$ (214,185)
Changes of assumptions	214,825	115,498	99,327
Differences between expected and actual experience	45,940	527,443	(481,503)
	376,102	972,463	(596,361)
Contributions subsequent to the measurement date	-	-	-
Total	\$ 376,102	\$ 972,463	\$ (596,361)

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, 2023. Other amounts reported as OPEB-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

2023	\$ (252,978)
2024	(190,011)
2025	(99,071)
2026	(54,301)
Total	\$ (596,361)

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Integrated Services of Kalamazoo

Notes to Financial Statements

Actuarial Assumptions. The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.75% to 5.25%
Investment rate of return	7.25%, net of OPEB investment expenses
Health care trend rates	Initial trend of 8.25% gradually decreasing to 3.50%
Mortality	<p><i>Healthy Pre-Retirement</i> - The Pub-2010 Amount-Weighted, General, Healthy Retiree, Male and Female tables, with future mortality improvements projected to 2025 using MP-2019</p> <p><i>Healthy Post-Retirement</i> - The Pub-2010 Amount-Weighted, General, Healthy Retiree, Male and Female tables, with future mortality improvements projected to 2025 using MP-2019</p> <p><i>Disability Retirement</i> - The Pub-2010 Amount-Weighted, General, Disabled Retiree, Male and Female tables, with future mortality improvements projected to 2025 using MP-2019</p>

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study conducted in 2018, covering years 2014 to 2018.

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:

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return (%)
U.S. Small-Cap (Manager 1)	5.00	4.12
U.S. Small-Cap (Manager 2)	10.00	4.12
International Developed Equity	10.00	3.42
U.S. Large-Cap (Manager 1)	30.00	3.62
U.S. Small-Cap (Manager 2)	5.00	3.62
Emerging Markets	10.00	5.22
Domestic Fixed Income	25.00	(0.88)
Real Estate (Manager 1)	2.50	1.82
Real Estate (Manager 2)	2.50	1.82

Integrated Services of Kalamazoo

Notes to Financial Statements

Discount Rate - The discount rate used to measure the total OPEB liability was 7.25%. 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 Other Postemployment Benefits Liability to Changes in the Discount Rate - The following presents the net OPEB liability of the Authority, calculated using the discount rate of 7.25%, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Authority's Net OPEB Liability	\$ 1,225,633	\$ 735,905	\$ 322,258

Sensitivity of the Net Other Postemployment Benefits Liability 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 (7.25% decreasing to 2.50%) or 1% higher (9.25% decreasing to 4.50%) than the current healthcare cost trend rates:

	1% Decrease (7.25% Decreasing to 2.5%)	Healthcare Cost Trend Rates (8.25% Decreasing to 3.5%)	1% Increase (9.25% Decreasing to 4.5%)
Authority's Net OPEB Liability	\$ 232,422	\$ 735,905	\$ 1,334,448

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

8. 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 \$27,075,524 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.

Integrated Services of Kalamazoo

Notes to Financial Statements

9. Concentrations and Economic Dependency

Approximately 80% of total revenue is either directly or indirectly, paid by or due from the Michigan Department of Health and Human Services.

10. 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, 2022.

11. Net Position

Net Investment in Capital Assets

As of September 30, 2022, the Authority's net investment in capital assets was comprised of the following:

September 30, 2022

Invested in capital assets:	
Capital assets not being depreciated	\$ 1,359,314
Capital assets being depreciated, net	11,744,312
Investment in Capital Assets	13,103,626
Lease Liability	(3,632,573)
Total Net Investment in Capital Assets	\$ 9,471,053

Restricted Net Position

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

12. Leases

The Authority adopted the provisions of Governmental Accounting Standards Board Statement Number 87, *Leases*, during the year ended September 30, 2022. The adoption of this standard was immaterial.

Integrated Services of Kalamazoo

Notes to Financial Statements

Leases Payable

The Authority entered into leases for buildings and copiers with lease terms ranging from two to 15 years. The leases went into effect on October 1, 2021. An initial lease liability was recorded in the amount of \$3,866,056 during the current year. As of September 30, 2022, the outstanding balance on the leases was \$3,632,573. The Authority is required to make monthly principal and lease payments ranging from \$1,100 to \$26,650. The leases have an interest rate of 5%. The net value of the right-of-use assets as of September 30, 2022 was \$3,568,346 and had accumulated amortization of \$297,710.

The future principal and interest lease payments as of September 30, 2022 were as follows:

Year ending September 30,

	Principal	Interest	Total
2023	\$ 229,706	\$ 176,413	\$ 406,119
2024	227,953	164,966	392,919
2025	239,615	153,304	392,919
2026	233,688	141,158	374,846
2027	189,012	130,788	319,800
2028-2032	1,100,396	498,604	1,599,000
2023-2037	1,412,203	186,797	1,599,000
Total	\$ 3,632,573	\$ 1,452,030	\$ 5,084,603

Leases Receivable

The Authority leases various buildings to third parties. The leases are for terms ranging from 4 to 15 years, and the Authority will receive monthly payments ranging from \$1,810 to \$2,750. The Authority recognized \$80,727 in lease revenue and \$10,233 in interest revenue for the year ended September 30, 2022. As of September 30, 2022, the Authority's receivable for lease payments was \$168,522. The Authority recognized a deferred inflow of resource associated with the lease of \$152,614 at September 30, 2022 that will be recognized as revenue over the remainder of the lease terms.

Required Supplementary Information

Integrated Services of Kalamazoo
Defined Benefit Pension Plan
Schedule of Authority's Proportionate Share of the Net Pension Asset

<i>December 31,</i>	2016	2017	2018	2019	2020	2021
Authority's proportion of the net pension asset (%)	18.32	19.352	19.294	19.006	19.24	20.04
Authority's proportionate share of the net pension asset	\$ 6,597,409	\$ 10,036,522	\$ 2,569,383	\$ 6,494,932	\$ 6,843,869	\$ 12,726,932
Authority's covered payroll	\$ 10,652,479	\$ 11,833,751	\$ 12,536,241	\$ 13,961,612	\$ 14,412,297	\$ 16,780,910
Authority's proportionate share of the net pension asset as a percentage of its covered payroll (%)	69.90	84.813	20.469	46.520	47.49	75.84
Plan fiduciary net position as a percentage of total pension asset (%)	121.00	129.410	106.99	117.33	117.25	129.88

Integrated Services of Kalamazoo

Defined Benefit Pension Plan Schedule of Contributions

Fiscal year ended September 30,

	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll (%)
2017	\$ 515,064	\$ 515,064	\$ -	\$ 11,299,962	4.60
2018	550,516	550,516	-	12,231,904	4.50
2019	358,556	358,556	-	13,429,060	2.70
2020	394,250	394,250	-	13,970,948	2.80
2021	599,345	599,345	-	16,503,966	3.60
2022	705,354	705,354	-	21,392,418	3.30

Integrated Services of Kalamazoo

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

<i>December 31,</i>	2017	2018	2019	2020	2021
Authority's proportion of the net OPEB liability (%)	4.30	4.15	3.80	3.35	1.25
Authority's proportionate share of the net OPEB liability	\$ (1,978,090)	\$ (1,727,226)	\$ (1,338,658)	\$ (1,027,899)	\$ (735,905)
Authority's covered payroll	\$ 5,779,519	\$ 5,362,845	\$ 5,140,630	\$ 4,799,580	\$ 4,436,875
Authority's proportionate share of the net OPEB liability as a percentage of its covered payroll (%)	34.23	32.207	26.041	21.42	16.59
Plan fiduciary net position as a percentage of total OPEB liability (%)	62.10	61.35	69.11	75.65	83.11

Integrated Services of Kalamazoo

Retiree Healthcare Plan Schedule of Contributions

Fiscal year ended September 30,

	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2018	\$ 228,973	\$ 209,892	\$ 19,081	\$ 5,657,770	3.70
2019	156,571	175,652	(19,081)	5,321,931	3.30
2020	145,752	145,752	-	5,088,347	2.90
2021	161,679	161,679	-	4,799,580	3.37
2022	154,050	154,050	-	4,436,875	3.47

Integrated Services of Kalamazoo

Notes to Required Supplementary Information

Defined Benefit Pension Plan

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

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.

Schedule of Contributions

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

Valuation Date	December 31, 2020
----------------	-------------------

Methods and assumptions used to determine contribution rates (2022, based on the December 31, 2020 actuarial valuation):

Actuarial cost method	Individual Entry age Normal Cost
Amortization method	Level percent of payroll, open period
Remaining amortization period	10 years
Asset valuation method	Market Value with five-year smoothing
Inflation	3.25%
Salary increases	3.75% to 5.25%
Investment rate of return	7.25%, net of investment and administrative expense including inflation
Retirement age	Age-based table of rates that are specific to the type of eligibility condition. The Normal Retirement rates were first used for the December 31, 2020 actuarial valuations. The Early Retirement rates were first used for the December 31, 2020 actuarial valuations.
Mortality	The Pub-2010 Amount-Weighted, General and Safety, Employee, Healthy Retiree and Disabled Retiree, Male and Female tables, with future mortality improvements projected to 2025 using scale MP-2019.

Other Postemployment Benefits Plan

Schedule of Authority's Proportionate Share of the Net OPEB Liability

The amounts presented for each fiscal year were determined as of September 30 of that fiscal year.

Integrated Services of Kalamazoo

Notes to Required Supplementary Information

GASB 74 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of Contributions

GASB 74 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Valuation Date

December 31, 2020

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar
Remaining amortization period	22 years, closed
Asset valuation method	Market Value of Assets
Inflation	2.5%
Salary increases	3.25% to 5.25%
Investment rate of return	7.25%, net of investment and administrative expense including inflation
Retirement age	Age-based or Service-based table of rates that are specific to the type of eligibility condition.
Mortality	The Pub-2010 Amount-Weighted, General, Healthy Retiree, Disabled Retiree, Male and Female tables, with future mortality improvements projected to 2025 using MP-2019.
Healthcare trend rates	Initial trend of 8.25% gradually decreasing to 3.50%.

Single Audit Act Compliance

Integrated Services of Kalamazoo
Schedule of Expenditures of Federal Awards
September 30, 2022

Year ended September 30, 2022

Federal Grantor/Pass-Through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
United States Department of Health and Human Services:				
Medicaid Cluster				
Pass-through from Michigan Department of Health and Human Services:				
Medical Assistance Program:				
Omnibus Budget Reconciliation Act-pre-admission screening/annual resident reviews	93.778	E20201850-00	\$ 236,327	\$ 274,140
Total Medicaid Cluster			\$ 236,327	\$ 274,140
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		-	855,985
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		-	72,888
Total Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)			\$ -	\$ 928,873
Passed through Michigan Department of Health and Human Services:				
Projects for Assistance in Transition from Homelessness (PATH)	93.150	E20201193-00	-	213,606
Passed through Network 180:				
Mental Health Research Grants	93.242	N/A	-	25,859
Substance Abuse and Mental Health Services Projects of Regional and National Significance:				
Mobile integrated Behavioral Health Team	93.243	1H79SM080669-01	-	461,882
Zero Suicide	93.243	1H79SM083409-01	-	120,211
Zero Suicide	93.243	6H79SM083409-02	-	186,434
Mental Health First Aid (MHFA) Training	93.243	6H79SM081162-03	-	99,058
Supported Employment	93.243	1H79SM082478-01	-	730,555
Suicide Prevention	93.243	1H79SM083363-01	-	310,562
Passed through Michigan Department of Health and Human Services:				
Healthy Transitions	93.243	E20202741-00	-	332,093
Total Substance Abuse and Mental Health Services Projects of Regional and National Significance			\$ -	\$ 2,240,795
Passed through Network 180:				
COVID-19 Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	93.665	N/A	-	359,282
Passed through Southwest Michigan Behavioral Health:				
Opioid STR:				
Opioid Outreach and Recovery Program	93.788	E20222842-003	-	223,113
Peer Outreach	93.788	E20222683-002	-	41,940
Total Opioid STR			\$ -	\$ 265,053
Section 223 Demonstration Programs to Improve Community Mental Health Services:				
Certified Community Behavioral Health Clinics (CCBHC)	93.829	1H79SM083175-01	-	1,275,049
Total Section 223 Demonstration Programs to Improve Community Mental Health Services			\$ -	\$ 1,275,049

Integrated Services of Kalamazoo
Schedule of Expenditures of Federal Awards
September 30, 2022

Year ended September 30, 2022

Federal Grantor/Pass-Through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
Block Grants for Community Mental Health Services:				
Passed through Michigan Department of Health and Human Services:				
Behavioral Health Consultant Grant	93.958	E20223858-00-00	\$ -	\$ 39,964
Enhanced Nutrition Care Coordination & Medical Culinary Education Programs	93.958	E20202052-00	-	133,000
Children's Crisis Residential	93.958	E20224981-00	55,449	55,449
Racial and Ethnic Disparities Reduction	93.958	E20224565-00	-	6,278
COVID-19 - Supplemental Adult Mental Health	93.958	E20220330-001	-	29,275
COVID-19 - Mental Health Supplemental Services	93.958	E20220878-001	-	14,173
ACT and Dual ACT/IDDT Financial Incentive	93.958	E20224858-00	-	145
Veteran Navigator	93.958	E20220452-00	56,312	125,000
Statewide Parent Management Training- Oregon (PMTO)	93.958	E20222675-00	-	379,315
Passed through Salvation Army:				
Salvation Army - Step Up Shelter	93.958	E20023552-00	-	142,779
Total Block Grants for Community Mental Health Services			\$ 111,761	\$ 925,378
Block Grants for the Prevention and Treatment of Substance Abuse:				
Passed through Southwest Michigan Behavioral Health:				
SAMM Contingency Management	93.959	E20222842-003	-	525
COVID-19 - ARPA Grant for Telehealth	93.959	E20224727-00	-	2,000
Passed through Michigan Department of Health and Human Services:				
Race to the Top Social Emotional Consultant	93.959	E20220884-00	26,296	26,296
Total Block Grants for the Prevention and Treatment of Substance Abuse			\$ 26,296	\$ 28,821
Total U.S. Department of Health and Human Services			374,384	6,536,856
U.S. Department of Housing and Urban Development:				
Passed through Michigan State Housing Development Authority:				
Emergency Solutions Grant Program	14.231	HML-2019-5395-ESF	-	40,477
Emergency Solutions Grant Program	14.231	L-2022-Housing-5395-ESM	-	38,327
Emergency Solutions Grant Program	14.231	HML-2020-5395-C19	-	559,475
Total Emergency Solutions Grant Program			-	638,279
Continuum of Care Program:				
HUD Grant (HBI) - Renewal 16 (1yr.)	14.267	MI0183L5F072013	-	291,572
HUD Grant (HBI) - Renewal 17 (1yr.)	14.267	MI0183L5F072114	-	109,153
HUD Grant (HBII) - Renewal 13 (1yr.)	14.267	MI0184L5F072013	-	129,855
HUD Grant (HBII) - Renewal 14 (1yr.)	14.267	MI0184L5F072114	-	150,952
HUD Grant (Full Count) - Renewal 13 (1yr.)	14.267	MI0182L5F072013	-	48,680
HUD Grant (Full Count) - Renewal 14 (1yr.)	14.267	MI0182L5F072114	-	3,265
HUD Grant (2 nd Base) - Renewal 10 (1yr.)	14.267	MI0296L5F071911	-	5,460
HUD Grant (2 nd Base) - Renewal 11 (1yr.)	14.267	MI0296L5F072113	-	31,134
HUD Grant (3 rd Base) - Renewal 9 (1yr.)	14.267	MI0346L5F071908	-	11,388
HUD Grant (3 rd Base) - Renewal 10 (1yr.)	14.267	MI0346L5F072110	-	30,186
HUD Grant (Grand Slam) - Renewal 10 (1yr.)	14.267	MI0178L5F072011	-	40,133
HUD Grant (Grand Slam) - Renewal 11 (1yr.)	14.267	MI0178L5F072112	-	14,367
HUD Grant (Home Run) - Renewal 11 (1yr.)	14.267	MI0332L5F072011	-	39,580
HUD Grant (Home Run) - Renewal 12 (1yr.)	14.267	MI0332L5F072112	-	15,964

Integrated Services of Kalamazoo
Schedule of Expenditures of Federal Awards
September 30, 2022

Year ended September 30, 2022

Federal Grantor/Pass-Through Grantor/Cluster or Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
Total Continuum of Care Program			\$ -	\$ 921,689
Total U.S. Department of Housing and Urban Development			\$ -	\$ 1,559,968
U.S. Department of Justice				
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	15PBJA-21-GG-04333-MENT	-	46,730
U.S. Department of Treasury				
Passed through Michigan Department of Health and Human Services:				
COVID-19 - Emergency Rental Assistance Program	21.023	HML-2021-5395-CERA	-	5,385,628
COVID-19 - Emergency Rental Assistance Program	21.023	HML-2022-5395-CERA2	-	4,966,917
Total U.S. Department of Treasury			-	10,352,545
Total Expenditures of Federal Awards			\$ 374,384	\$18,496,099

The accompanying notes are an integral part of this schedule.

Integrated Services of Kalamazoo

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2022

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Integrated Services of Kalamazoo (the Authority) under programs of the federal government for the year ended September 30, 2022. 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. 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.

3. Indirect Cost Rate

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 the Uniform Guidance.

4. Reconciliation to Financial Statements

Year ended September 30, 2022

Federal and state grants per financial statements	\$	23,606,501
Less: state grants		(5,110,402)
Expenditures of Federal Awards	\$	18,496,099



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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*

Integrated Services of Kalamazoo
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 Integrated Services of Kalamazoo (the Authority), which comprise the Authority's statement of net position as of September 30, 2022, and the related statements of revenues, expenses, and changes in 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 30, 2023.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.



Report on 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 financial statements. 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

March 30, 2023



Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Integrated Services of Kalamazoo
Kalamazoo, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Integrated Services of Kalamazoo's (the Authority) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2022. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal programs.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

BDO USA, LLP

March 30, 2023

Integrated Services of Kalamazoo

Schedule of Findings and Questioned Costs Year Ended September 30, 2022

Section 1. 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 weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes 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)?

Yes No

Identification of major federal programs:

Federal CFDA Number	Name of Federal Program or Cluster
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance
93.829	Section 223 Demonstration Programs to Improve Community Mental Health Services
93.958	Block Grants for Community Mental Health Services

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

Section 2. Financial Statement Findings

There were no findings related to the financial statements that are required to be reported, in accordance with generally accepted government auditing standards.

Section 3. Federal Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in 2 CFR 200.516(a)) that are required to be reported.
