

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 and 2018**

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITOR’S REPORT	i – ii
MANAGEMENT’S DISCUSSION AND ANALYSIS	iii – x
BASIC FINANCIAL STATEMENTS	1
Government-Wide Financial Statements Statements of Net Position	2
Statements of Activities	3
FUND FINANCIAL STATEMENTS	4
Balance Sheets – Governmental Funds	5
Reconciliation of the Balance Sheets of Governmental Funds to the Statements of Net Position	6
Statements of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	7 – 8
Reconciliation of the Statements of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to the Statements of Activities	9
Notes to the Financial Statements	10 – 28
REQUIRED SUPPLEMENTARY INFORMATION	29
Statement of Revenue and Expenses – Budget and Actual – Government-Wide	30
Schedule of Changes in the Employer’s Net Pension Liability and Related Ratios	31
Schedule of Employer’s Contributions	32
Schedule of Changes in the Employers Net OPEB Liability (Asset) and Related Ratios	33
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	34 – 35

INDEPENDENT AUDITOR'S REPORT

To the Board
Huron Behavioral Health
Bad Axe, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Huron Behavioral Health, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Huron Behavioral Health, as of September 30, 2019 and 2018, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

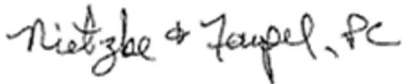
Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2020, on our consideration of Huron Behavioral Health'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 Huron Behavioral Health'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 Huron Behavioral Health's internal control over financial reporting and compliance.



Nietzke & Faupel, PC

January 29, 2020

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2019

This section of the Huron Behavioral Health (HBH) annual financial report presents management's discussion and analysis of the financial performance for the fiscal year ended September 30, 2019 (FY 2019). This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to the financial statements and supplemental information taken as a whole.

The Michigan Department of Health & Human Services (MDHHS) contracts for Medicaid specialty supports and services through designated Prepaid Inpatient Health Plans (PIHPs) in regional geographic areas. In FY 2019, Mid-State Health Network (MSHN) was the Medicaid PIHP for the region that included Huron Behavioral Health. The MSHN region encompasses twenty-one (21) counties serviced by twelve (12) Community Mental Health Programs (CMHP) that include: Bay-Arenac Behavioral Health Authority, CMH Authority of Clinton, Eaton, Ingham Counties, CMH for Central Michigan, Gratiot Integrated Health Network, Huron Behavioral Health, The Right Door for Hope, Recovery & Wellness (Ionia County CMH) Lifeways CMH Authority, Montcalm Care Network, Newaygo County – Mental Health Center, Saginaw County CMH Authority, Shiawassee Health and Wellness, and Tuscola Behavioral Health Systems. Huron Behavioral Health is affiliated with and subcontracts for Medicaid, Healthy Michigan and Autism funding through the PIHP, rather than directly with the State of Michigan. State general fund revenue and other state and federal grants are sourced directly from MDHHS. Earned contracts may be sourced through MDHHS or through County of Financial Responsibility (COFR) arrangements with other community mental health service providers.

FINANCIAL HIGHLIGHTS

- Operating results show a decrease of net position of \$854 thousand or 7.3% of revenue compared to an increase of \$2.87 million in the prior year. The decrease in net position is largely a result of changes in the Net Pension Liability (GASB 68) and the Net Other Post-Employment Benefits (GASB 75). The additional expense for these two reporting requirements in the amount of \$1,018 million contributed to the decrease.
- Unrestricted net position before the effect of the GASB 68 and 75 net liability is \$1.68 million or 19% of total assets. The effect of the GASB 68 net liability on the FY 2019 financial statements amounts to \$1.155 million.
- Over \$1.5 million of idle cash was placed into Certificates of Deposit managed through Northstar Bank in their CDARS[®] product. FY 2019 is the first year of full interest, and interest income was expected to be over \$20,000. Interest income for FY 2019 totaled \$35,071.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements, in accordance with generally accepted accounting principles (U.S. GAAP) according to GASB Statement 34, include the presentation of two types of financial statements. These are the government-wide financial statements and fund financial statements.

Government-wide financial statements include the statements of net position and the statements of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these financial statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated and long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses are recorded when "incurred" without regard to the timing of cash receipts or disbursements.

The statements of net position include all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2019

of improving or deteriorating financial position. The statements of activities present information showing how net position changed during the fiscal year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the government-wide financial statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year principal and interest payments recorded as expenditures.

SUMMARY OF NET POSITION

The following table summarizes the assets, liabilities and net position on a government-wide basis:

Summary of Net Position

As of September 30, 2019 and 2018

(In \$000s)

	<u>2019</u>	<u>2018</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>Assets</u>				
Current assets	\$ 2,622	\$ 3,010	\$ (388)	-12.9%
Restricted assets	528	561	(33)	-5.9%
Capital assets	4,821	4,888	(67)	-1.4%
Net OPEB asset	<u>874</u>	<u>1,117</u>	<u>(243)</u>	-21.8%
Total assets	<u>8,845</u>	<u>9,576</u>	<u>(731)</u>	-7.6%
<u>Deferred Outflows of Resources</u>				
Related to pensions	1,519	818	701	85.7%
Related to OPEB	<u>467</u>	<u>63</u>	<u>404</u>	641.3%
Total deferred outflows of resources	<u>1,986</u>	<u>881</u>	<u>1,105</u>	125.4%
<u>Liabilities</u>				
Current liabilities	1,073	1,562	(489)	-31.3%
Net pension liability	3,107	1,439	1,668	115.9%
Long-term debt	2,366	2,496	(130)	-5.2%
Other noncurrent liabilities	<u>528</u>	<u>561</u>	<u>(33)</u>	-5.9%
Total liabilities	<u>7,074</u>	<u>6,058</u>	<u>1,016</u>	16.8%
<u>Deferred Inflows of Resources</u>				
Related to pensions	361	172	189	109.9%
Related to OPEB	<u>28</u>	<u>4</u>	<u>24</u>	600.0%
Total deferred outflows of resources	<u>389</u>	<u>176</u>	<u>213</u>	121.0%

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2019

	<u>2019</u>	<u>2018</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>Net Position</u>				
Net investment in capital assets	2,324	2,265	59	2.6%
Net position related to pensions	(1,949)	(793)	(1,156)	(145.8)%
Net position related to OPEB	1,314	1,176	138	11.7%
Unrestricted	<u>1,680</u>	<u>1,575</u>	<u>105</u>	6.7%
Total net position	<u>\$ 3,369</u>	<u>\$ 4,223</u>	<u>\$ (854)</u>	(20.2)%
<i>Current financial position</i>	1,549	1,448	101	7.0%
<i>Current ratio</i>	2.4	1.9	0.5	26.3%
<i>Unrestricted Net Position % of Total Assets</i> <small>(Net position related to pensions+Net position related to OPEB+Unrestricted)</small>	11.8%	20.4%	-8.6%	-42.2%

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength. The current financial position is a positive \$1.549 million, an increase of \$101 thousand or 7.0%, compared to the prior year. The current ratio is the measure of current assets divided by current liabilities. The current ratio at fiscal year-end is 2.4:1, an increase from the prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others, unearned revenue, and the current portion of long-term debt.

Restricted assets consist of cash, investments, and the related accrued interest receivable. These are restricted for payment of compensated absences and certain deferred compensation amounts.

Capital assets consist of property and equipment having an estimated useful life of more than one year and an original cost in excess of \$5 thousand. These assets are stated at their original book value, net of accumulated depreciation.

In FY 2019, \$168 thousand was expended for capital acquisitions, including \$67 thousand for replacement vehicles and \$101 thousand for information technology equipment. Depreciation expense was \$234 thousand. Of this amount, slightly under \$5 thousand was related to assets acquired prior to October 1, 2003, and was not considered for Medicaid and State General Fund cost reconciliation purposes. The net change in capital assets was a decrease of \$(67) thousand for the year. The net gain from the sale/disposal of assets was just under \$5,000 for the year.

As of year-end, the net book value of depreciable capital assets was 71% of the original book value compared to 73% for the prior fiscal year. This percentage is a measure of the relative age of the property and equipment.

Net OPEB Asset consists of the excess funds that were contributed to the employee post-employment benefit plan to pay the current and future medical costs of the retirees that were hired prior to January 1, 1999 in accordance with GASB Statement 75 that was adopted during FY 2018. For FY 2019, the net OPEB asset amounted to \$874 thousand, which decreased \$(243) thousand or (21.8)% from the asset at the beginning of the year. Additional information on the Net OPEB Asset is included in Note 12 of the Notes to the Financial Statements.

Deferred outflows and inflows of resources are related to the reporting of the net pension liability for HBH's employee retirement plan and the net asset for HBH's other post-employment benefits. The deferred outflows of resources are a combination of the net difference between the actual experience of

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2019

the plans and the estimated actuarial calculation of the performance of the plans; the change in the assumptions used in the actuarial calculations for the plans; and the contributions that were made to the plans subsequent to the measurement date of the plans which was December 31, 2018. The deferred inflows of resources are the net difference between the projected investment earnings of the plan assets and the actual investment earnings recognized during the plan year. Additional information on the deferred outflows and inflows of resources is included in Notes 10 and 12 of the Notes to the Financial Statements.

Other noncurrent liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligations and certain deferred compensation amounts. For FY 2019, the vacation and sick pay obligations for \$528 thousand is included in the noncurrent liabilities and the decrease in the obligation for the fiscal year was \$(33) thousand or (5.9)%.

Net pension liability consists of the net pension liability of the employees' defined benefit retirement plan that is administered by the Municipal Employer's Retirement System of Michigan. For FY 2019, the net pension liability of the employees' retirement plan amounted to \$3.107 million. The increase in the net pension liability for the fiscal year was \$1.668 million or 115.9%. Additional information on the net pension liability is included in Note 10 of the Notes to the Financial Statements.

Long-term obligations is the debt incurred to construct the Wertz Drive buildings. The amount is shown net of the current portion. The current portion (amount due within one year) is shown in current liabilities. In FY 2017, the long-term debt associated with the Genesis home was paid off to avoid future interest expense.

Net investment in capital assets is the net book value of the capital assets, net of the related debt.

Unrestricted net position at the end of the fiscal year is \$1.045 million, a decrease of \$(913) thousand from the prior year. Unrestricted net position is 11.8% of total assets, down from 20.4% at the end of the prior fiscal year. This is the sum of net position related to pensions, net position related to OPEB, and unrestricted net position. As noted in the Financial Highlights, this is largely affected by the GASB 68 and 75 expenses.

SUMMARY OF ACTIVITIES

The following table summarizes the revenue, expenses and change in net position on a government-wide basis:

Summary of Activities				
<i>For the years ended September 30, 2019 and 2018</i>				
<i>(In \$000s)</i>				
	<u>2019</u>	<u>2018</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>REVENUE</u>				
Medicaid specialty supports and services	\$ 8,994	\$ 8,551	\$ 443	5.2%
Healthy Michigan Medicaid	1,174	1,157	17	1.5%
State general fund priority population	427	363	64	17.6%
Medicaid Autism	467	537	(70)	-13.0%
Program service revenue	88	105	(17)	-16.2%
Grants and earned contracts	185	199	(14)	-7.0%
County appropriation	288	273	15	5.5%
Interest income	35	13	22	169.2%
Other local income	<u>25</u>	<u>23</u>	<u>2</u>	8.7%
TOTAL REVENUE	<u>11,683</u>	<u>11,221</u>	<u>462</u>	4.1%

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2019

EXPENSE

Program operations	5,711	5,347	364	6.8%
Contractual provider expense	4,099	3,928	171	4.4%
General administration	1,932	(631)	2,563	406.2%
Managed care administration	272	280	(8)	-2.9%
Local funds contributed to State	169	169	-	0.0%
Depreciation	234	250	(16)	-6.4%
Interest expense	89	93	(4)	-4.3%
State facility - local portion	<u>31</u>	<u>52</u>	<u>(21)</u>	-40.4%
TOTAL EXPENSE	<u>12,538</u>	<u>9,488</u>	<u>3,049</u>	32.1%
CHANGE IN NET POSITION	<u>\$ (854)</u>	<u>\$ 1,733</u>	<u>\$ (2,587)</u>	-149.3%

Revenue for the year was \$11.683 million compared to \$11.221 million for the prior year, an increase of \$462 thousand or 4.1% for the year.

Medicaid specialty supports and services revenue of \$8.994 million increased \$443 thousand or 5.2% compared to the prior year. This represents 77.0% of total revenue, which is up slightly from the prior year. The increase in Medicaid revenue is a result of increased Medicaid expenditures (discussed below). Medicaid specialty supports and service revenues are provided under a subcontract with MSHN, the Medicaid PIHP for the region. This subcontract is on a net cost not to exceed basis. The funding from MSHN includes \$51 thousand more than the Per Member Per Month allocation.

Healthy Michigan Medicaid of \$1.174 million increased \$17 thousand or 1.5% compared to the prior year. This represents 10.0% of total revenue, which is slightly less from the prior year. This increase is due to a slight increase in the number of consumers served. Healthy Michigan Medicaid revenues are provided under a subcontract with MSHN. This subcontract is on a net cost not to exceed basis. The funding from MSHN includes \$733 thousand more than the Per Member Per Month allocation.

Autism Medicaid Supports and Services revenue of \$467 thousand represents a small portion of total revenue at 4.0% and is a likely area for potential growth. Autism Medicaid revenues are provided under a subcontract with MSHN. This subcontract is on a net cost not to exceed basis. The funding from MSHN includes \$34 thousand more than the Per Member Per Month allocation.

State General Fund priority population revenue (formula funding) of \$427 thousand increased \$64 thousand or 17.6% compared to the prior year. State general fund revenue represents 3.7% of total revenue compared to 3.2% in the prior year. This funding is established by MDHHS as part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. The state wide funding allocation changed in FY 2019 resulting in the increase in revenue to HBH. Over the next 4 years, the funding will increase by \$64 until the revised formula funding is realized.

Program service revenue of \$88 thousand includes charges for services to consumers not covered by Medicaid subcontracts, State General Funds or other contract or grant revenue sources. These have decreased \$(17) thousand or (16.2)% from the prior year. These represent 0.8% of total revenue, down from 0.9% of total revenue in the prior year. This revenue is a source of local funds needed to meet matching fund requirements, cover funding shortfalls in other areas and contribute to unrestricted fund balance.

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2019

Grants and earned contract revenue of \$185 thousand includes revenue sources for which the use of funds is restricted to a specific purpose. These have decreased \$(14) thousand or (7.0)% from the prior year. These represent 1.6% of total revenue. The decrease is related to a lower number of consumers being served through COFR, or County of Financial Responsibility, arrangements. It also includes about \$84 thousand of MDHHS Performance Based Funding that local funds restricted for use on the public mental health system.

County appropriation revenue, interest income and other local income totaling \$348 thousand are available to meet state matching fund requirements and for other local purposes. These revenue sources represent 3.0% of revenue and have increased \$39 thousand or 12.6% from the prior year. Other local income includes about \$18 thousand in payments related to the federal government's Electronic Health Record Incentive program – Meaningful Use. The County appropriation is \$288 thousand, including \$66 thousand for senior services and \$28 thousand for prevention activities.

Total expense of \$12.538 million has increased \$3.049 million or 32.1% compared to the prior year.

Program operations expense of \$5.711 million includes salaries, benefits and other operating costs of direct-operated supports and services programs. These represent 45.5% of total expense, and have increased \$364 thousand or 6.8% from the prior year.

Contractual provider expense of \$4.099 million includes community hospital, residential supports, case management, supported employment, respite, community living supports and other external providers. These represent 32.7% of total expense, and have increased \$171 thousand or 4.4% over the prior year. The largest increase was in external residential services of \$152 thousand and community hospital of \$195 thousand. There were other increases of about \$45 thousand related to external community living supports. These increases were offset by decreases in external specialty care management services (\$130 thousand) and external skill building services (\$104 thousand).

Managed care administration expense of \$272 thousand relates to state contracts held by HBH and to functions delegated to HBH by the regional Medicaid PIHP. These represent 2.2% of total expense. Expenses for this category are down \$(8) thousand or (2.9)% from the prior year.

General administration expense of \$1,932 thousand represents 15.4% of total expense. These have increased \$2.563 million or 406.2% compared to the prior year. This is due almost completely to the increase in the Net Pension Liability and recognizing an expense of \$1.156 million related to GASB 68 expense and a decrease of \$(138) thousand of GASB 75 OPEB Expense during FY 2019.

BUDGET

The anticipated revenue across all funding streams continues to be a source of uncertainty. Unlike other local government budgets, over 95% of the HBH budget consists of managed care contract programs with some element of insurance risk. These are essentially entitled supports and services for eligible beneficiaries or for specialized services for uninsured or underinsured priority populations. As such a majority of its expense is non-discretionary.

FUTURE OUTLOOK

This past year has seen interesting changes, such as the Governor vetoing Section 298, including the proposed Pilots, which lead to the Michigan Department of Health and Human Services (MDHHS) announcement that the 3 pilot projects will not be moving forward. However, the MDHHS reported that they will be moving forward with a proposal for System Re-Design. In December of 2019, Director Gordon met with the Joint Senate/House of Representatives to propose the MDHHS System Re-design plans. According to MDHHS, the proposed system will integrate physical and behavioral health services (and payments) to improve outcomes and meet the growing demand for mental health care in Michigan. This

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2019

proposal removes the Pre-Paid Inpatient Health Plans (PIHP's) as they currently exist to oversee and assume the risk for CMHSP's and instead proposes different Specialty Integrated Plans (SIPs). MDHHS will support the establishment of at least one statewide public plan run by the leaders of our public behavioral health system. In addition, they invite health plans, providers, hospitals, and others to step forward and sponsor SIPs, encouraging all parties to form partnerships that bring in complementary expertise, networks, and relationships. MDHHS will be seeking public input on the detailed application requirements that will ensure every organization is anchored in the necessary expertise and commitments. The MDHHS intends to follow a timeline including discussion of approach in 2019, detailed policy design and enabling legislation in 2020, preparation for implementation in 2021 and finalization of implementation in 2022. It is expected that any system redesign would have a direct impact on the operations of Huron Behavioral Health. The extent to which the impact will be felt at the local level is yet to be clearly understood.

In efforts to provide behavioral health and physical health integration, HBH continues to engage with community providers in an attempt to expand access to services including Substance Use Disorder treatment. In the past year, HBH's administrative staff have continued to have multiple conversations with medical and administrative staff from Scheurer Hospital and McLaren – Thumb Region to explore possible areas for collaboration and integration. We also continue to work with the Great Lakes Bay Health Center – Thumb Clinic to encourage access to primary care for people that also have behavioral health needs and to work toward a more integrated level of care and treatment.

We continue to collaborate with Harbor Beach Community Hospital on a Mental Health Access grant. The objective of the grant is to develop the means to expand access to behavioral health services for people with third-party insurances and those with Medicaid who do not meet specialty mental health eligibility. Tele-psychiatry services have been initiated in the Harbor Beach and Port Hope areas. This has gotten off to a slower start than anticipated but collaboration continues to help educate the community on this valuable service.

Due to MDHHS's revision to the General Fund allocation methodology, HBH has recognized a small increase in general funds which will be given incrementally over the next five years. HBH continues to maximize services to indigent consumers while staying within the spending authorization – it is a delicate balance.

Healthy Michigan work requirements are going into effect for any person on Healthy Michigan aged 19-62 who is not considered exempt from such requirements. At this time, it is believed that individuals receiving services and supports from Huron Behavioral Health will fall into the exempt category, however, this is something that will have to be closely monitored to assure that individuals are not falling off of eligibility for Healthy Michigan and then having to utilize general fund dollars for services and supports.

Huron Behavioral Health's administrative staff regularly engages in conversations with the County Board of Commissioners regarding the budget and allocations for the agency. Based upon proposed projects, the Commissioners have been willing to allocate additional project-based funding, particularly for Substance Use Disorder Prevention and Education and Suicide Prevention and Awareness activities. It is anticipated that this will remain a viable option into the future.

In summary, there are many unknowns in HBH's immediate future. The one variable that does remain steady and constant is there are residents of the county that are in need of behavioral health services and supports in order to function as productive and healthy members of the community. In order to assure its viability as a community service provider, HBH must continue to closely monitor and quickly adapt to changes as they are presented, as well as strive to take advantage of opportunities to improve efficiencies and quality of care to individuals receiving services as well as the community.

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2019

* * * * *

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

BASIC FINANCIAL STATEMENTS

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**STATEMENTS OF NET POSITION -
GOVERNMENTAL ACTIVITIES**

	SEPTEMBER 30,	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and investments	\$ 1,750,736	\$ 1,959,513
Accounts receivable - net	35,335	50,583
Due from other governmental units	721,350	890,475
Prepaid expenses	<u>114,118</u>	<u>109,489</u>
TOTAL CURRENT ASSETS	<u>2,621,539</u>	<u>3,010,060</u>
NONCURRENT ASSETS		
Cash - restricted	528,087	560,723
Capital assets - nondepreciable	112,599	112,599
Capital assets - net of depreciation	4,708,165	4,775,838
Net other post-employment benefits	<u>874,257</u>	<u>1,117,289</u>
TOTAL NONCURRENT ASSETS	<u>6,223,108</u>	<u>6,566,449</u>
TOTAL ASSETS	<u>8,844,647</u>	<u>9,576,509</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Related to pensions	1,519,184	817,771
Related to post-employment benefits other than pensions	<u>466,999</u>	<u>63,006</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,986,183</u>	<u>880,777</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	405,486	587,063
Due to service providers	238,908	89,454
Due to other governmental units	61,303	458,588
Accrued payroll	168,088	149,793
Accrued health insurance	57,460	135,190
Unearned revenue	10,176	14,943
Current portion long-term debt	<u>131,374</u>	<u>127,144</u>
TOTAL CURRENT LIABILITIES	<u>1,072,795</u>	<u>1,562,175</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	498,087	499,804
Accrued severance pay	30,000	60,919
Notes payable - net of current	2,365,527	2,495,847
Net pension liability	<u>3,107,483</u>	<u>1,439,111</u>
TOTAL NONCURRENT LIABILITIES	<u>6,001,097</u>	<u>4,495,681</u>
TOTAL LIABILITIES	<u>7,073,892</u>	<u>6,057,856</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Related to pensions	360,540	171,969
Related to post-employment benefits other than pensions	<u>27,538</u>	<u>3,726</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>388,078</u>	<u>175,695</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,323,863	2,265,447
Unrestricted	<u>1,044,997</u>	<u>1,958,288</u>
TOTAL NET POSITION	<u>\$ 3,368,860</u>	<u>\$ 4,223,735</u>

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

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

<u>Functions</u>	<u>Program Revenue</u>			<u>Net (Expense)</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>	
				<u>2019</u>	<u>2018</u>
Governmental activities					
Health & welfare - Mental health					
September 30, 2019	<u>\$ 12,538,860</u>	<u>\$ 11,177,209</u>	<u>\$ 49,381</u>	<u>\$ (1,312,270)</u>	
September 30, 2018	<u>\$ 9,488,681</u>	<u>\$ 10,742,811</u>	<u>\$ 50,935</u>		<u>\$ 1,305,065</u>
General revenues					
Grants and contributions not restricted to specific programs				287,727	273,499
Unrestricted investment earnings				35,071	12,638
Miscellaneous revenue				<u>134,597</u>	<u>141,934</u>
Total general revenues				<u>457,395</u>	<u>428,071</u>
Change in net position				<u>(854,875)</u>	<u>1,733,136</u>
Net position - beginning of year				4,223,735	1,353,014
Prior period adjustment				-	1,137,585
Net position - end of year				<u>\$ 3,368,860</u>	<u>\$ 4,223,735</u>

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

FUND FINANCIAL STATEMENTS

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**BALANCE SHEETS
GOVERNMENTAL FUNDS**

	SEPTEMBER 30,	
<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Cash and investments	\$ 1,750,737	\$ 1,959,513
Accounts receivable - net	35,335	50,583
Due from other governmental units	721,350	890,475
Prepaid expenditures	114,118	109,489
Cash - restricted	528,087	560,723
TOTAL ASSETS	<u>\$ 3,149,627</u>	<u>\$ 3,570,783</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 405,486	\$ 587,063
Due to service providers	238,908	89,454
Due to other governmental units	61,303	458,588
Accrued payroll	168,088	149,793
Accrued health insurance	57,460	135,190
Unearned revenue	10,176	14,943
TOTAL LIABILITIES	<u>941,421</u>	<u>1,435,031</u>
<u>FUND BALANCES</u>		
Nonspendable:		
Prepaid expenditures	114,118	109,489
Committed for:		
Compensated absences	498,087	499,804
Severance pay	30,000	60,919
Unassigned	1,566,001	1,465,540
TOTAL FUND BALANCES	<u>2,208,206</u>	<u>2,135,752</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,149,627</u>	<u>\$ 3,570,783</u>

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

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS
TO THE STATEMENTS OF NET POSITION**

	SEPTEMBER 30,	
	<u>2019</u>	<u>2018</u>
Total fund balance - governmental funds	\$ 2,208,206	\$ 2,135,752
Amounts reported for governmental activities in the statements of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund financial statements.		
Add: Capital assets	6,744,046	6,637,631
Deduct: Accumulated depreciation	(1,923,282)	(1,749,194)
Some assets are not available to provide resources in the current period, and therefore are not reported in the funds. Those assets consist of:		
Add: Net other post-employment benefits	874,257	1,117,289
Some liabilities are not due and payable in the current period, and therefore are not reported in the funds. Those liabilities consist of:		
Deduct: Severance pay	(30,000)	(60,919)
Deduct: Compensated absences	(498,087)	(499,804)
Deduct: Net pension liability	(3,107,484)	(1,439,111)
Long-term liabilities, including notes payable, are not due and payable in the current period, and therefore are not reported in the funds.	(2,496,901)	(2,622,991)
Deferred outflows of resources		
Related to pensions	1,519,184	817,771
Related to post-employment benefits other than pensions	466,999	63,006
Deferred inflows of resources		
Related to pensions	(360,540)	(171,969)
Related to post-employment benefits other than pensions	(27,538)	(3,726)
Net position of governmental activities	<u>\$ 3,368,860</u>	<u>\$ 4,223,735</u>

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

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**

REVENUE	YEARS ENDED	
	SEPTEMBER 30,	
	<u>2019</u>	<u>2018</u>
Charges for services		
Medicaid specialty managed care capitation	\$ 10,636,125	\$ 10,245,479
Medicaid fee for service	1,516	83
Earned contracts	18,466	17,462
Client and third party pay	98,636	117,306
Total charges for services	<u>10,754,743</u>	<u>10,380,330</u>
 Federal grants		
Federal block grants	3,345	5,091
PAS / ARR Grant	46,036	45,844
Total federal grants	<u>49,381</u>	<u>50,935</u>
 State grants		
State General Fund DCH Contract	<u>427,439</u>	<u>362,777</u>
 Contributions - Local units		
County appropriation	193,250	193,250
Senior grant	66,000	66,000
Other county funding	28,477	14,249
Total contributions - Local units	<u>287,727</u>	<u>273,499</u>
 Interest income	35,071	12,638
 Other revenue	136,074	150,188
 TOTAL REVENUE	<u>11,690,435</u>	<u>11,230,367</u>
 EXPENDITURES		
Health & Welfare - Mental Health		
Personnel costs		
Salaries & wages	3,726,982	3,489,316
Fringe benefits	1,139,434	1,350,276
Board per diem	7,598	7,841
Total personnel costs	<u>4,874,014</u>	<u>4,847,433</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**

EXPENDITURES (CONTINUED)	YEARS ENDED SEPTEMBER 30,	
	<u>2019</u>	<u>2018</u>
Operating expenditures		
Building rental	14,833	14,833
Consumer food, clothing	684	397
Contract residential	1,005,232	863,618
Contractual other	3,432,906	3,556,234
Inpatient - private	727,450	532,764
Inpatient - state	31,488	51,815
Interest	89,471	93,788
Medical	368,547	109,879
Other operating expense	62,975	56,346
Printing, postage & advertising	14,404	19,057
Repairs & maintenance	160,406	141,539
Supplies	164,834	152,092
Telephone	40,106	36,269
Travel	118,485	114,195
Utilities	49,316	61,400
Local funds paid to PIHP	168,800	168,800
Total operating expenditures	6,449,937	5,973,026
 Capital outlay	 167,940	 162,242
 Debt retirement	 126,090	 121,773
 TOTAL EXPENDITURES	 11,617,981	 11,104,474
 EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	 72,454	 125,893
 FUND BALANCE - BEGINNING OF THE YEAR	 2,135,752	 2,018,248
 PRIOR PERIOD ADJUSTMENT	 -	 (8,389)
 FUND BALANCE - END OF THE YEAR	 <u>\$ 2,208,206</u>	 <u>\$ 2,135,752</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**RECONCILIATION OF THE STATEMENTS OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENTS OF ACTIVITIES**

	YEARS ENDED	
	SEPTEMBER 30,	
	<u>2019</u>	<u>2018</u>
Net change in fund balance - total governmental funds	\$ 72,454	\$ 125,893
<p>Amounts reported for governmental activities in the statements of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Add: Capital outlay	167,940	162,242
Deduct: Net book value of disposals	(1,477)	(8,254)
Deduct: Depreciation expense	(234,139)	(249,510)
<p>Loan proceeds provide current financial resources to governmental funds, while the repayment of principal on debt is an expenditure in the governmental funds. Neither transaction, however, has any effect on governmental activities. This is the amount by which debt repayments exceeded debt issued during the fiscal year.</p>		
	126,090	121,773
<p>Some expenses reported in the statements of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the funds.</p>		
Change in accrual for severance pay	30,919	-
Change in accrual for compensated absences	1,717	(23,249)
Pension related items	(1,155,529)	1,573,647
OPEB related items	137,150	30,594
Change in net position of governmental activities	<u>\$ (854,875)</u>	<u>\$ 1,733,136</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The basic financial statements of Huron Behavioral Health have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by Huron Behavioral Health are described below.

Reporting Entity

Huron Behavioral Health is an Authority that operates under the provisions of Act 258 – Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disabilities, adults with severe mental illness, children with serious emotional disturbances, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Huron who meet eligibility and other criteria.

The accounting policies of Huron Behavioral Health conform to U.S. GAAP as applicable to governmental units.

In accordance with U.S. GAAP, these financial statements present all of the Authority's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net position and the statements of activities) report information on all of the activities of Huron Behavioral Health. *Governmental activities* normally are supported by intergovernmental revenues.

The statements of activities demonstrate the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net position is restricted when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is Huron Behavioral Health's policy to use restricted resources first, then unrestricted resources as they are needed.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Huron Behavioral Health considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the “60 day” rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Purchases of capital assets are recorded as expenditures at the date of purchase and are not capitalized and depreciated.
- Employees’ vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2019 and 2018 has been reported only in the government-wide financial statements.
- Long-term debt proceeds are recorded as an “Other financing source” in the period that it is received instead of being recorded as a liability.
- Debt service expenditures and claims and judgments are recorded only when payment is due.
- Interest on general long-term obligations is recognized when paid.

Fund Accounting

The financial activities of Huron Behavioral Health are recorded in individual funds, each of which is deemed to be a separate accounting entity. Huron Behavioral Health uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of Huron Behavioral Health that are reported in the accompanying financial statements have been classified into the following major governmental funds.

Governmental Funds

General Fund – This fund is Huron Behavioral Health’s primary operating fund. It accounts for all the financial resources except those required to be accounted for in other funds.

Budgetary Data

Huron Behavioral Health’s general fund budget is under formal budgetary control and follows both Huron Behavioral Health’s and Michigan Department of Health and Human Services’ annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with U.S. GAAP and the requirements of the Michigan Department of Health and Human Services.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash and Investments

In accordance with Michigan Compiled Laws, Huron Behavioral Health is authorized to invest in obligations of the U.S. Treasury including its agencies and instrumentalities, certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC), commercial paper rated in the three (3) highest classifications of two rating services, United States government or federal agency obligation repurchase agreements, and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Huron Behavioral Health’s deposits are in accordance with statutory authority.

A specific amount of cash has been restricted for future payment of the compensated absences, since it has been charged to the Department of Health and Human Services. Huron Behavioral Health has established a separate cash account to monitor this future liability.

Receivables

Uncollectible accounts are provided for using the allowance method based on historical experience and management’s evaluation of outstanding accounts receivable. Based on these factors, there is an allowance for uncollectible accounts of \$38,007 and \$104,842 at September 30, 2019 and 2018, respectively.

Prepaid Expenses/Expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of Huron Behavioral Health are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	N/A
Buildings and Improvements	20 – 40
Equipment	5 – 10
Computers	3
Transportation Equipment	5

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Incurred But Not Reported Claims Liability

The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimates. The Authority may not be billed for these until several months after the date of service. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumer eligibility or cost recovery from other third party payers.

Compensated Absences

Huron Behavioral Health's policy allows full time employees to accumulate vacation time and sick time, at various rates, depending on the employee's length of service with Huron Behavioral Health. The governmental fund financial statements record expenditures when employees are paid for these compensated absences. The government-wide financial statements record the expense and the related liability when these compensated absences are earned by employees.

Deferred Outflows and Inflows 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has two items that qualify for reporting in this category. The first is related to pensions reported in the government-wide Statement of Net Position. This represents the effect of the net change in the Authority's net pension liability related to the plan's contributions and investment returns. The second item relates to OPEB reporting in the government-wide Statement of Net Position. This represents the effect of the net change in the Authority's net OPEB liability (asset) related to the plan's investment returns.

In addition to liabilities, the Statement of Net 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two items that qualify for reporting in this category. The first is related to pensions reported in the government-wide Statement of Net Position. This represents the effect of the net change in the Authority's net pension liability related to its actual experience compared to the plan projections. The second item relates to the OPEB reporting in the government-wide Statement of Net Position. This represents the effect of the net change in the Authority's net OPEB liability (asset) related to its actual experience compared to the plan projections and change in actuarial assumptions.

Fund Balance

In accordance with GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*", the Authority provides the following classifications of the governmental fund balances:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory or prepaid expenditures) are either legally or contractually required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Balance (Continued)

Committed fund balance – amounts constrained to specific purposes by the Authority itself, using its highest level of decision-making authority (Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the Authority takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the Authority intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Authority would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

Economic Dependence

A material portion of the CMH Board's source of revenue (94%) is either controlled by or received from the Michigan Department of Health and Human Services in the form of Medicaid revenue or state general fund revenue for mental health services. This revenue is provided on a capitated basis based on the population of the Board's service area (Huron County).

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information

As set forth by State law, the CMH Board adopts an annual budget on a government-wide basis. The annual budget is adopted on the full accrual basis of accounting in accordance with GASB Statement 34. The Executive Director is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures must be approved by the CMH Board. For the year ended September 30, 2019, the original budgeted expenditures amounted to \$12,117,643. During the fiscal year ended September 30, 2019, there were budget amendments that increased the total budgeted expenditures by \$220,940. The government-wide budget is presented in the Statement of Revenue and Expenses - Budget and Actual on page 30. All annual appropriations lapse at the end of the fiscal year.

Excess of Expenditures Over Appropriations

Budget control has been established by the CMH Board at the level of the following expenditure categories: Program operations, Community supports, General administration, Community hospital, Residential services, Managed care administration, Local funds contribution, Depreciation, Interest expense, and State facility – local portion. During the year ended September 30, 2019, Huron Behavioral Health incurred expenditures which were in excess of the budgeted amounts as presented in the statement of revenue and expenses-budget and actual on page 30.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 3 – CASH AND INVESTMENTS:

The Authority's cash balances are as follows:

	<u>2019</u>	<u>2018</u>
Carrying amount of cash and investments		
Unrestricted – general fund	\$1,750,736	\$1,959,513
Restricted – general fund	<u>528,087</u>	<u>560,723</u>
Total carrying amount of cash and investments	<u>\$2,278,823</u>	<u>\$2,520,236</u>

The bank balances of the cash and investments are classified as follows:

	<u>2019</u>	<u>2018</u>
Insured by FDIC	\$1,853,235	\$1,521,275
Uninsured and uncollateralized	<u>436,916</u>	<u>1,021,257</u>
Total bank balance of cash and investments	<u>\$2,290,151</u>	<u>\$2,542,532</u>

Restricted cash balances have been set aside for the following purposes:

	<u>2019</u>	<u>2018</u>
Payment of compensated absences	\$498,087	\$499,555
Payment of severance pay	<u>30,000</u>	<u>60,919</u>
Total restricted cash	<u>\$528,087</u>	<u>\$560,723</u>

Interest rate risk. In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Credit risk. The Authority will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities authorized by Board policy and state law.

Concentration of credit risk. The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – Investments. For an investment, this 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.

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the Authority will do business.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 3 – CASH AND INVESTMENTS: (CONTINUED)

Foreign currency risk. The Authority is not authorized to invest in investments which have this type of risk.

NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other governmental units consists of the following:

	<u>2019</u>	<u>2018</u>
State of Michigan	\$ 24,392	\$ 21,687
Mid-State Health Network	640,958	824,788
Other CMHs	<u>56,000</u>	<u>44,000</u>
Total	<u>\$721,350</u>	<u>\$890,475</u>

NOTE 5 – CHANGES IN CAPITAL ASSETS:

A summary of the changes in the Authority's capital assets is as follows:

	<u>2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>2019</u>	
Non-depreciable assets					
Land	\$ 112,599	\$ -	\$ -	\$ 112,599	
Total non-depreciable assets	<u>\$ 112,599</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,599</u>	
Depreciable assets					
Land improvements	\$ 606,353	\$ -	\$ -	\$ 606,353	
Buildings	4,454,277	-	-	4,454,277	
Building improvements	156,129	-	-	156,129	
Office equipment	316,527	-	-	316,527	
Computer equipment	270,341	100,575	2,627	368,289	
Transportation equipment	<u>721,405</u>	<u>67,366</u>	<u>58,899</u>	<u>729,872</u>	
Total depreciable assets	<u>\$6,525,032</u>	<u>\$167,941</u>	<u>\$ 61,526</u>	<u>\$6,631,447</u>	
				Net capital	
	<u>2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>2019</u>	<u>assets</u>
Accumulated depreciation					
Land improvements	\$ 63,618	\$ 16,100	\$ -	\$ 79,718	\$ 526,635
Buildings	561,650	108,064	-	669,714	3,784,563
Building improvements	69,709	6,814	-	76,523	79,606
Office equipment	272,907	14,477	-	287,384	29,143
Computer equipment	224,025	30,380	2,627	251,778	116,511
Transportation equipment	<u>557,285</u>	<u>58,302</u>	<u>57,422</u>	<u>558,165</u>	<u>171,707</u>
Total	<u>\$1,749,194</u>	<u>\$234,137</u>	<u>\$60,049</u>	<u>\$1,923,282</u>	<u>\$4,708,165</u>

(Continued)

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 6 – ACCRUED PAYROLL:

This liability represents amounts paid to employees during October that were earned during September. Also included are recurring payroll liabilities that are incurred on a monthly basis.

NOTE 7 – LONG-TERM OBLIGATIONS:

The following is a summary of the changes in the long-term obligations:

	<u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>2019</u>	<u>Due within one year</u>
Accrued severance pay	\$ 60,919	\$ -	\$ 30,919	\$ 30,000	\$ -
Accrued compensated absences	499,804	-	1,717	498,807	-
Mortgage payable – 2013	<u>2,622,991</u>	<u>-</u>	<u>126,090</u>	<u>2,496,901</u>	<u>131,374</u>
Totals	<u><u>\$3,183,714</u></u>	<u><u>\$ -</u></u>	<u><u>\$158,726</u></u>	<u><u>\$3,024,988</u></u>	<u><u>\$131,374</u></u>

Compensated Absences

Authority policy allows full time employees to accumulate annual leave time at various rates, depending on the employee’s length of service with Huron Behavioral Health. Amounts accumulated up to a maximum of 30 days are to be paid to the employee and recognized as an expense either when annual leave time is used, or at the discretion of Huron Behavioral Health, upon termination of employment.

Employees also accumulate sick leave time at various rates, depending on the date of hire. Amounts accumulated up to a maximum of 100 days are to be paid to the employee and recognized as an expense either when sick leave time is used, or at the discretion of Huron Behavioral Health, upon termination of employment. As of September 30, 2019 and 2018, this liability was \$498,087 and \$499,804, respectively.

Severance Pay

A liability has been recognized for the severance pay agreement that has been established with the Executive Director of the Authority. The liability is based on a percentage of the Executive Director’s current salary.

Mortgage Payable

In 2013, the Authority also issued a mortgage payable, with a local bank in the amount of \$3,100,000. The proceeds of the note were used for the construction of two new office buildings. The terms of the note call for monthly payments in the amount of \$17,963 including interest at an annual rate of 3.44%, with the first payment due September 29, 2014 and a final balloon payment to be made on the maturity date of August 29, 2034. The note is collateralized by the buildings that were constructed. Interest expense on the note for the years ended September 30, 2019 and 2018 amounted to \$89,471 and \$93,788, respectively.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 7 – LONG-TERM OBLIGATIONS: (CONTINUED)

The annual requirements to amortize the long-term obligations outstanding exclusive of compensated absences and severance pay are:

<u>Years Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 131,374	\$ 83,739	\$ 215,113
2021	136,428	79,133	215,561
2022	141,196	74,365	215,561
2023	146,131	69,430	215,561
2024	151,237	64,323	215,560
2025-2029	840,773	238,542	1,079,315
2030-2034	<u>949,762</u>	<u>81,399</u>	<u>1,031,161</u>
Totals	<u>\$2,496,901</u>	<u>\$690,931</u>	<u>\$3,187,832</u>

NOTE 8 – UNEMPLOYMENT COMPENSATION:

Huron Behavioral Health is a reimbursing employer for purposes of unemployment insurance claims against the employer. Huron Behavioral Health reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. Because an estimate cannot be made, the contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred. There was no unemployment expense for the year ended September 30, 2019 and 2018.

NOTE 9 – OPERATING LEASES:

The Authority entered into various lease arrangements for residential housing facilities. The terms of the leases require monthly payments amounting to \$1,236. The Authority is responsible for all expenses of operation including utilities and maintenance.

The leases also provide for an optional renewal term with monthly lease payments to be determined based on an agreed upon formula. The leases further provide for cancellation by the Authority in the event funding is terminated, reduced or licensing is withheld. Lease expense for the residential housing facilities amounted to \$14,833 and \$14,833 for the year ended September 30, 2019 and 2018, respectively.

NOTE 10 – RETIREMENT SYSTEM:

Plan Description:

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 10 – RETIREMENT SYSTEM: (CONTINUED)

Plan Benefits:

The plan benefits that the employees will receive at their date of retirement are determined based on the factors in the following table:

	2018 Valuation	2017 Valuation
Benefit Multiplier:	2.25% Multiplier (80% max)	2.25% Multiplier (80% max)
Normal Retirement Age:	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/15	55/15
Early Retirement (Reduced):	50/25	50/25
Final Average Compensation:	3 years	3 years
COLA for Future Retirees:	2.50% (Non-Compound)	2.50% (Non-Compound)
COLA for Current Retirees:	2.50% (Non-Compound)	2.50% (Non-Compound)
Employee Contributions:	5%	5%
Act 88:	Yes-Adopted 10/1/12	Yes-Adopted 10/1/12

Employees Covered by Benefit Terms:

At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	41
Inactive employees entitled to but not yet receiving benefits	48
Active employees	<u>61</u>
Total	<u>150</u>

Contributions:

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. 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. The employer may establish contribution rates to be paid by its covered employees. Employer contributions were 11.44% based on annual payroll for open divisions.

Net Pension Liability:

The employer's Net Pension Liability was measured as of December 31, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 10 – RETIREMENT SYSTEM: (CONTINUED)

Actuarial Assumptions:

The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.75% in the long-term
- Investment rate of return: 7.75%, net of investment expense, including inflation
- Asset smoothing period used was 5 years, effective in 2016

Mortality rates used were based on the 2014 Healthy Annuitant Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, a 50% Male - 50% Female blend of the 2014 Disabled Retiree Mortality Tables are used.

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study of 2009-2013. 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate:

The discount rate used to measure the total pension liability is 8.0% for 2018. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay 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.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 10 – RETIREMENT SYSTEM: (CONTINUED)

Changes in Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2017	<u>\$18,752,763</u>	<u>\$17,313,652</u>	<u>\$1,439,111</u>
Change for the year			
Service cost	436,534	-	436,534
Interest on total pension liability	1,487,682	-	1,487,682
Employer contributions	-	419,481	(419,481)
Employee contributions	-	166,043	(166,043)
Net investment income	-	(682,593)	682,593
Benefit payments	(750,019)	(750,019)	-
Difference between expected and actual experience	(386,590)	-	(386,590)
Administrative expense	-	(33,678)	33,678
Net change	<u>787,607</u>	<u>(880,766)</u>	<u>1,668,373</u>
Balance at December 31, 2018	<u>\$19,540,370</u>	<u>\$16,432,887</u>	<u>\$3,107,483</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.0%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (7.0%) or 1% higher (9.0%) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability at 12/31/18	<u>\$ 5,404,860</u>	<u>\$ 3,107,483</u>	<u>\$ 1,174,554</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 10 – RETIREMENT SYSTEM: (CONTINUED)

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

For the year ended December 31, 2018 the employer recognized pension expense (income) of \$1,544,000 due to the increase in the net pension liability and the related deferred outflows and inflows.

The employer reported deferred outflows and inflows of resources related to pensions are from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$360,540
Contributions subsequent to the measurement date	283,346 *	-
Net difference between projected and actual earnings on pension plan investments	<u>1,235,838</u>	<u>-</u>
Total	<u>\$1,519,184</u>	<u>\$ 360,540</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending December 31, 2019. Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years ending December 31,</u>	
2019	\$ 197,048
2020	17,649
2021	248,649
2022	<u>411,952</u>
	<u>\$ 875,298</u>

Required Supplementary Information:

Required supplementary information schedules are required with GASB 68. The Schedule of Employer Contributions shows the employer’s required annual contributions from the annual actuarial valuation, compared with the actual contributions remitted over the past ten years. This schedule can be filled out prospectively but many employers will have the information from prior years. The Schedule of Changes in Employer’s Net Pension Liability and Related Ratios shows the changes in total pension liability less the statement of changes in fiduciary net position resulting in the Net Pension Liability calculation for the employer. There are ratios calculated, as well, involving covered employee payrolls. Note that this is a 10 year schedule prospectively.

- Schedule of Changes in Employer’s Net Pension Liability and Related Ratios
- Schedule of Employer Contributions

NOTE 11 – DEFERRED COMPENSATION:

Employees of Huron Behavioral Health may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 11 – DEFERRED COMPENSATION: (CONTINUED)

The deferred compensation plan is available to all employees of the Authority. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by Empower Retirement. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the Administration, until paid or made available to the employees or beneficiaries, are the property of the Authority subject only to the claims of the Authority's general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the Authority and each participant's rights are equal to his or her share of the fair market value of the plan assets. The Authority believes that it is unlikely that plan assets will be needed to satisfy claims of general creditors that might arise.

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS:

Plan Description:

The Authority's defined benefit post-employment healthcare plan, Huron Behavioral Health Post-employment Healthcare Plan (HBHPHP), provides medical benefits to eligible retired employees and their beneficiaries. HBHPHP is affiliated with the Michigan Municipal Employees' Retirement System Retiree Health Funding Vehicle (RHFV), a single employer post-employment healthcare plan administered by the MMERS Retirement System. The Statutes of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plan that participates in an RHFV to the respective employer entities; for HBHPHP, that authority rests with the Huron Behavioral Health Board. The MMERS Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the RHFV. That report may be obtained by writing to MMERS Retirement System, 1134 Municipal Way, Lansing, MI 48917, or by calling 1-517-703-9030.

Benefits Provided:

The Authority does not offer or pay for post-retirement group health insurance benefits for any full-time employee hired on or after January 1, 1999. The Board of Directors reviews the premium sharing plan on an annual basis and establishes the method to be used for the next plan year. Upon an employee's retirement from active service, provided the employee was hired and worked as a full time employee before January 1, 1999 and has had no breaks in service, the Authority will pay the premium for the core plan group health insurance as described below, less the employee cost share per PA 152 election by the Authority. (Eligible premium means the amount of premium paid by the Authority based upon the years of uninterrupted service and upon the age of the individual at retirement.)

All retirees taking the Huron Behavioral Health group health insurance are subject to paying the same premium sharing as levied to the active staff. The Authority will pay for:

- 75% of the eligible premium for employees having at least 15 years of service with the Authority at the time of retirement and being of age 55 or older. The retired employee is responsible for the remaining 25% of the eligible premium, in addition to payment of the established premium sharing rate. The individual retired from the Authority is also responsible for any plan deductibles, co-insurance and co-pays.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS: (CONTINUED)

Benefits Provided: (Continued)

- 100% of the eligible premium, subject to the requirements noted herein for the retiree contribution, for employees having at least 20 years of service with the agency at the time of retirement and being of age 55 or older, or for such employee having at least 10 years of service and being at the age of 60 or older. In addition to payment of the established premium sharing rate, the individual retired from the Authority is also responsible for any plan deductibles, co-insurance and co-pays.

All required premium sharing must be paid by the first of the coverage month.

If, at the time of retirement an employee, who meets all of the above criteria, is receiving the annual amount in lieu of group health insurance, assurances are given they will be eligible for group coverage at the next open enrollment period (open enrollment is in December with an effective date of January 1st).

Employees Covered by Benefit Terms:

At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries	
currently receiving benefits	41
Active plan members	10
Total plan members	51

Contributions:

The employees are required to contribute amounts as described in the benefits provided section. The employer has fully funded the liability for other post-employment benefits in prior years and, as long as the plan remains fully funded, is no longer required to make annual contributions to the plan.

Net OPEB Liability (Asset):

The Authority's net OPEB liability (asset) was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total OPEB liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Price Inflation: 1.75%
- Salary Increases: 3.50%
- Investment Rate of Return: 7.00%, net of OPEB plan investment expense
- Health Care Trend Rates: Initial trend of 8.5% gradually decreasing to an ultimate trend rate of 4.50% in year 16.
- Mortality: Public General 2010 Employee and Healthy Retiree with projection scale MP-2018.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS: (CONTINUED)

Single Discount Rate:

A single discount rate of 7.0% was used to measure the total OPEB liability. The single discount rate was based on the expected rate of return on OPEB plan investments of 7.0%. The projection of cash flows used to determine this Single Discount Rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

Changes in Net OPEB Liability (Asset):

	Increase (Decrease)		
	TOTAL OPEB LIABILITY <u>(a)</u>	PLAN FIDUCIARY NET POSITION <u>(b)</u>	NET OPEB LIABILITY (ASSET) <u>(a) - (b)</u>
Balance at September 30, 2018 (Prior measurement date)	\$ 3,908,151	\$ 5,025,440	\$ (1,117,289)
Adjustments to reconcile to current beginning measurement date	<u>(47,432)</u>	<u>85,102</u>	<u>(132,534)</u>
Balance at December 31, 2017	<u>3,860,719</u>	<u>5,110,542</u>	<u>(1,249,823)</u>
Change for the year			
Service cost	25,904	-	25,904
Interest on total OPEB liability	264,187	-	264,187
Net investment income	-	(175,246)	175,246
Change in actuarial assumptions	(38,269)	-	(38,269)
Benefit payments	(225,017)	(225,017)	-
Difference between expected and actual experience	(63,699)	-	(63,699)
Administrative expense	<u>-</u>	<u>(12,197)</u>	<u>12,197</u>
Net change	<u>(36,894)</u>	<u>(412,460)</u>	<u>375,566</u>
Balance at December 31, 2018	<u>\$ 3,823,825</u>	<u>\$ 4,698,082</u>	<u>\$ (874,257)</u>

Sensitivity of the Net OPEB Liability (Asset) to the Single Discount Rate Assumption:

The following presents the Net OPEB Liability (Asset) of the employer, calculated using a single discount rate of 7.0%, as well as what the employer's Net OPEB Liability (Asset) would be using a single discount rate that is 1 percent lower (6.0%) or 1 percent higher (8.0%) than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability (Asset)	<u>\$ (487,252)</u>	<u>\$ (874,257)</u>	<u>\$ (1,201,917)</u>

(Continued)

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS: (CONTINUED)

Sensitivity of the Net OPEB Liability (Asset) to the Healthcare Cost Trend Rate Assumption:

The following presents the Net OPEB Liability (Asset) of the employer, calculated using the assumed healthcare cost trend rates, as well as what the employer's Net OPEB Liability (Asset) would be using a trend rate that is 1 percent lower or 1 percent higher than the current rate.

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Net OPEB Liability (Asset)	\$ <u>(1,219,342)</u>	\$ <u>(874,257)</u>	\$ <u>(468,747)</u>

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

For the fiscal year ended September 30, 2019 the employer recognized OPEB expense (income) of \$(191,646). The employer reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 17,203
Change in actuarial assumptions		10,335
Net difference between projected and actual earnings on OPEB plan investments	<u>466,999</u>	<u>-</u>
Total	<u>\$ 466,999</u>	<u>\$ 27,538</u>

Amounts reported as deferred outflows and inflows of resources related to the OPEB will be recognized in OPEB expense as follows:

<u>Years ending September 30,</u>	
2019	\$ 93,149
2020	120,688
2021	120,688
2022	<u>104,936</u>
	<u>\$ 439,461</u>

Required Supplementary Information:

Required supplementary information schedules are required with GASB 75. The Schedule of Changes in the Employer's Net OPEB Liability (Asset) and Related Ratios shows the changes in total OPEB liability less the statement of changes in fiduciary net position resulting in the Net OPEB Liability (Asset) calculation for the employer. There are ratios calculated, as well, involving covered employee payrolls. Note that this is a 10 year schedule prospectively.

- Schedule of Changes in Employer's Net OPEB Liability (Asset) and Related Ratios

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 13 – RISK MANAGEMENT:

General Liability:

Huron Behavioral Health participates in the Michigan Municipal Risk Management Authority, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a liability limit of \$10 million. The Authority is required to pay annual premiums to the Michigan Municipal Risk Management Authority for the liability coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The Authority also purchased commercial insurance coverage for losses related to their property, automobiles and commercial general liability.

Workers' Compensation:

Huron Behavioral Health purchased commercial insurance to provide coverage of losses related to workers' compensation claims. The workers' compensation insurance provides coverage for up to a maximum of \$1,000,000 for each workers' compensation claim.

Employee Health Care:

The Authority provides health care benefits to its employees and their dependents using a partially self-funded plan. For the years ended September 30, 2019 and 2018, the cost of the employee's health care benefits totaled \$397,285 and \$606,947, respectively. The employees pay 20% of their health insurance premiums in accordance with state statutes.

Managed Care Risk Contracts:

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The State General Fund risk contract and reserve covers only the Authority's specific service area. The Authority is at risk for any State General Fund service costs that exceed the revenue provided by the State of Michigan for these services. The Authority is required to cover any excess costs with local funds. In the event of incurring excess service costs, the Authority will use its available unrestricted fund balance to cover those costs.

Contingent Liabilities:

Amounts received or receivable from federal, state and other grantor agencies are subject to audit and adjustment by the grantor. Any disallowed amounts, including amounts already collected, may constitute a liability. The amount, if any, of costs that may be disallowed cannot be determined at this time.

NOTE 14 – NEW ACCOUNTING STANDARD AND PRIOR PERIOD ADJUSTMENT:

For the year ended September 30, 2018, the Authority implemented the following new pronouncement: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary:

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

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 14 – NEW ACCOUNTING STANDARD AND PRIOR PERIOD ADJUSTMENT: (CONTINUED)

Summary: (Continued)

As a result of the adoption of GASB Statement No. 75, net position as of September 30, 2018 was understated by \$1,137,585 and fund balance was overstated by \$(8,389).

NOTE 15 – UPCOMING ACCOUNTING PRONOUNCEMENT:

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for the Authority's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

REQUIRED SUPPLEMENTARY INFORMATION

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**GOVERNMENT-WIDE
STATEMENT OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2019**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUE				
Medicaid specialty supports & services	\$ 8,996,998	\$ 9,558,799	\$ 8,994,441	\$ (564,358)
Healthy Michigan Medicaid	1,226,119	1,399,766	1,174,449	(225,317)
State general fund priority population	437,439	437,439	427,439	(10,000)
Medicaid Autism	917,403	477,104	467,235	(9,869)
Program service revenue	93,400	91,680	87,530	(4,150)
Grants and earned contracts	216,655	174,209	185,268	11,059
County appropriation	278,250	278,250	287,727	9,477
Interest income	23,500	33,000	35,071	2,071
Other local income	<u>8,500</u>	<u>24,000</u>	<u>24,825</u>	<u>825</u>
TOTAL REVENUE	<u>12,198,264</u>	<u>12,474,247</u>	<u>11,683,985</u>	<u>(790,262)</u>
EXPENSES				
Program operations	5,990,350	6,124,239	5,711,128	413,111
Community supports	2,759,100	2,487,700	2,367,248	120,452
General administration	1,092,831	1,050,467	1,932,003	(881,536)
Community hospital	545,000	850,000	727,450	122,550
Residential services	900,250	1,010,000	1,005,232	4,768
Managed care administration	289,078	284,107	271,904	12,203
Local funds contribution	168,800	168,800	168,800	-
Depreciation	249,234	240,270	234,136	6,134
Interest expense	90,000	90,000	89,471	529
State facility - local portion	<u>33,000</u>	<u>33,000</u>	<u>31,488</u>	<u>1,512</u>
TOTAL EXPENSES	<u>12,117,643</u>	<u>12,338,583</u>	<u>12,538,860</u>	<u>(200,277)</u>
CHANGE IN NET POSITION	<u>\$ 80,621</u>	<u>\$ 135,664</u>	<u>\$ (854,875)</u>	<u>\$ (990,539)</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**SCHEDULE OF CHANGES IN THE EMPLOYER'S
NET PENSION LIABILITY AND RELATED RATIOS**

	December 31,				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total pension liability					
Service cost	\$ 360,168	\$ 380,571	\$ 410,110	\$ 429,525	\$ 436,534
Interest	1,142,974	1,184,580	1,340,706	1,399,470	1,487,682
Difference between expected and actual experience	-	117,223	(376,436)	(17,409)	(386,590)
Changes of assumptions	-	825,693	-	-	-
Benefit payments including employee refunds	(528,241)	(592,385)	(624,186)	(674,881)	(750,019)
Other	-	37,019	-	-	-
Net change in total pension liability	974,901	1,952,701	750,194	1,136,705	787,607
Total pension liability - beginning	13,938,262	14,913,163	16,865,864	17,616,058	18,752,763
Total pension liability - ending	<u>\$ 14,913,163</u>	<u>\$ 16,865,864</u>	<u>\$ 17,616,058</u>	<u>\$ 18,752,763</u>	<u>\$ 19,540,370</u>
Plan fiduciary net position					
Contributions-employer	\$ 256,616	\$ 259,250	\$ 250,582	\$ 440,321	\$ 419,481
Contributions-employee	138,644	151,788	148,022	158,030	166,043
Net investment income	873,694	(218,670)	1,601,485	2,042,556	(682,593)
Benefit payments including employee refunds	(528,241)	(592,385)	(624,186)	(674,881)	(750,019)
Administrative expense	(32,130)	(31,852)	(31,601)	(32,310)	(33,678)
Net change in plan fiduciary net position	708,583	(431,869)	1,344,302	1,933,716	(880,766)
Plan fiduciary net position - beginning	13,758,920	14,467,503	14,035,634	15,379,936	17,313,652
Plan fiduciary net position - ending	<u>\$ 14,467,503</u>	<u>\$ 14,035,634</u>	<u>\$ 15,379,936</u>	<u>\$ 17,313,652</u>	<u>\$ 16,432,886</u>
Employer net pension liability	<u>\$ 445,660</u>	<u>\$ 2,830,230</u>	<u>\$ 2,236,122</u>	<u>\$ 1,439,111</u>	<u>\$ 3,107,483</u>
Plan fiduciary net position as a percentage of the total pension liability	97.0%	83.2%	87.3%	92.3%	84.1%
Covered employee payroll	\$ 2,699,913	\$ 2,852,859	\$ 3,011,086	\$ 3,142,097	\$ 3,198,053
Employer's net pension liability as a percentage of covered employee payroll	16.5%	99.2%	74.3%	45.8%	97.2%

Notes to schedule:

Above dates are based on measurement date of December 31, which may not necessarily tie to the fiscal year.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Authority presents information for those years for which information is available.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS

	<u>September 30,</u>				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarial determined contributions	\$ 250,440	\$ 207,996	\$ 244,884	\$ 344,616	\$ 381,204
Contributions in relation to the actuarially determined contribution	252,456	239,523	421,361	408,372	385,380
Contribution deficiency (excess)	<u>\$ (2,016)</u>	<u>\$ (31,527)</u>	<u>\$ (176,477)</u>	<u>\$ (63,756)</u>	<u>\$ (4,176)</u>
 Covered employee payroll	 \$ 2,699,913	 \$ 2,852,859	 \$ 3,011,086	 \$ 3,142,097	 \$ 3,368,728
 Contributions as a percentage of covered employee payroll	 9.4%	 8.4%	 14.0%	 13.0%	 11.4%

Notes to Schedule

Actuarial cost method	Entry age - Normal cost
Amortization method	Level percentage of payroll, open
Remaining amortization period	23 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement age	60
	50% Female / 50% Male - 2014 Healthy
	Annuitant Mortality Tables, with rates multiplied
Mortality	by 105%

Above dates are based on fiscal year of September 30, not necessarily the measurement date.
Note that these are employer contributions and not employee contributions.

This schedule is presented to illustrate the requirement to show information for 10 years.
However, until a full 10 year trend is compiled, the Authority presents information for those
years for which information is available.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**SCHEDULE OF CHANGES IN THE EMPLOYER'S
NET OPEB LIABILITY (ASSET) AND RELATED RATIOS**

	<u>2017</u>	<u>2018</u>
Fiscal year ended December 31,		
Total OPEB liability		
Service cost	\$ 25,485	\$ 25,904
Interest	263,031	264,187
Difference between expected and actual experience	(8,861)	(63,699)
Changes of assumptions	-	(38,269)
Benefit payments including employee refunds	(232,687)	(225,017)
Other	-	(47,432)
	<hr/>	<hr/>
Net change in total OPEB liability	46,968	(84,326)
Total OPEB liability - beginning	3,861,183	3,908,151
	<hr/>	<hr/>
Total OPEB liability - ending	<u>\$ 3,908,151</u>	<u>\$ 3,823,825</u>
Plan fiduciary net position		
Net investment income (loss)	263,173	\$ (175,246)
Benefit payments including employee refunds	(232,687)	(225,017)
Administrative expense	(12,203)	(12,197)
Other	-	85,102
	<hr/>	<hr/>
Net change in plan fiduciary net position	18,283	(327,358)
Plan fiduciary net position - beginning	5,007,157	5,025,440
	<hr/>	<hr/>
Plan fiduciary net position - ending	<u>\$ 5,025,440</u>	<u>\$ 4,698,082</u>
Employer net OPEB liability (asset)	<u>\$ (1,117,289)</u>	<u>\$ (874,257)</u>
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	128.6%	122.9%
Covered employee payroll	\$ 639,117	\$ 611,417
Employer's net OPEB liability (asset) as a percentage of covered employee payroll	-174.8%	-143.0%

Notes to schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Authority presents information for those years for which information is available.

Annual Required Contribution:

Since the OPEB Plan is fully funded as presented, the annual required contribution (ARC) is \$0.

**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**

To the Board
Huron Behavioral Health
Bad Axe, 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 the governmental activities and each major fund of Huron Behavioral Health, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Huron Behavioral Health's basic financial statements, and have issued our report thereon dated January 29, 2020.

Internal Control Over Financial Reporting

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

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

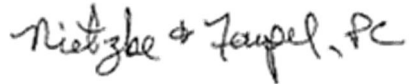
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Nietzke & Faupel, PC". The signature is written in a cursive, flowing style.

Nietzke & Faupel, PC

January 29, 2020