

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 and 2020**

**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 – ix
BASIC FINANCIAL STATEMENTS	1
Statements of Net Position	2
Statements of Revenues, Expenses, and Changes in Net Position	3
Statements of Cash Flows	4 – 5
Notes to the Financial Statements	6 – 22
REQUIRED SUPPLEMENTARY INFORMATION	23
Schedule of Changes in the Employer’s Net Pension Liability and Related Ratios	24
Schedule of Employer’s Contributions	25
Schedule of Changes in the Employers Net OPEB Liability (Asset) and Related Ratios	26
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>	27 – 28



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 business-type activities of Huron Behavioral Health, as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Huron Behavioral Health, as of September 30, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

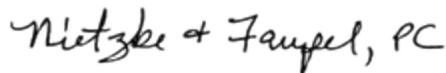
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 February 1, 2022, 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
Pigeon, Michigan

February 1, 2022

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2021

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, 2021 (FY 2021). 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 2021, 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 an increase of net position of \$460 thousand or 3.7% of revenue compared to a decrease of \$44 thousand in the prior year. The increase in net position is largely due to the net increase in net position associated with pension and OPEB, \$253 thousand.
- Unrestricted net position is \$1.53 million or 14% of total assets. This is an increase of \$534 thousand when compared to the prior year unrestricted net position which was \$997 thousand or 10% of total assets, this again is related largely to the change in net position associated with Pension and OPEB.
- Over \$1.37 million of idle cash was held in Certificates of Deposit managed through Northstar Bank in their CDARS® product which is approximately the same when compared to the prior year. Interest income for FY 2021 and 2020 totaled \$2,095 and \$19,995, respectfully.

OVERVIEW OF FINANCIAL STATEMENTS

The Authority's financial statements include the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. These present the overall financial status of the Authority in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. 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 Statement of Net Position includes all assets, deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the improving or deteriorating financial position.

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2021

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how net position changed during the year as a result of operating activity. All changes in net position are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of the related cash flows.

SUMMARY OF NET POSITION

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

Summary of Net Position				
<i>As of September 30, 2021 and 2020</i>				
<i>(In \$000s)</i>				
	<u>2021</u>	<u>2020</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>Assets</u>				
Current assets	\$ 3,611	\$ 2,916	\$ 695	23.8%
Restricted assets	631	627	4	0.6%
Capital assets	4,485	4,694	(209)	-4.5%
Net OPEB asset	<u>2,249</u>	<u>1,391</u>	<u>858</u>	61.7%
Total assets	<u>10,976</u>	<u>9,628</u>	<u>1,348</u>	14.0%
<u>Deferred Outflows of Resources</u>				
Related to pensions	1,641	1,004	637	63.4%
Related to OPEB	<u>-</u>	<u>105</u>	<u>(105)</u>	-100.0%
Total deferred outflows of resources	<u>1,641</u>	<u>1,109</u>	<u>532</u>	48.0%
<u>Liabilities</u>				
Current liabilities	1,579	1,161	418	36.0%
Net pension liability	3,663	3,419	244	7.1%
Long-term debt	2,090	2,230	(140)	-6.3%
Other noncurrent liabilities	<u>607</u>	<u>602</u>	<u>5</u>	0.8%
Total liabilities	<u>7,939</u>	<u>7,412</u>	<u>527</u>	7.1%
<u>Deferred Inflows of Resources</u>				
Related to pensions	709	-	709	0.0%
Related to OPEB	<u>184</u>	<u>-</u>	<u>184</u>	0.0%
Total deferred outflows of resources	<u>893</u>	<u>-</u>	<u>893</u>	0.0%
<u>Net Position</u>				
Net investment in capital assets	2,254	2,327	(73)	-3.1%
Net position related to pensions	(2,731)	(2,416)	(315)	13.0%
Net position related to OPEB	2,065	1,497	568	37.9%
Unrestricted	<u>2,197</u>	<u>1,916</u>	<u>281</u>	14.7%
Total net position	<u>\$ 3,785</u>	<u>\$ 3,324</u>	<u>\$ 461</u>	13.9%
<i>Current financial position</i>	\$ 2,032	\$ 1,755	\$ 227	15.8%
<i>Current ratio</i>	2.3	2.5	(0.2)	-8.9%
<i>Unrestricted Net Position % of Total Assets</i>	13.9%	10.4%	3.6%	34.7%
<i>(Net position related to pensions+Net position related to OPEB+Unrestricted)</i>				

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2021

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 \$2.032 million, an increase of \$227 thousand or 15.8%, 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 2.3:1, a slight decrease 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 2021, \$41 thousand was expended for capital acquisitions, including \$6 thousand for building improvements and \$35 thousand for information technology equipment. Depreciation expense was \$250 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 \$(209) 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 65% of the original book value compared to 68% 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 2021, the net OPEB asset amounted to \$2.249 million, which increased \$858 thousand or 61.7% 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 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, 2020. 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 2021, the vacation and sick pay obligations for \$607 thousand is included in the noncurrent liabilities and the increase in the obligation for the fiscal year was \$5 thousand or 0.8%.

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2021

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 2021, the net pension liability of the employees' retirement plan amounted to \$3.663 million. The increase in the net pension liability for the fiscal year was \$244 thousand or 7.14%. 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.

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 \$2.197 million, an increase of \$281 thousand from the prior year. Unrestricted net position is 13.9% of total assets, up from 10.4% at the end of the prior fiscal year. This is the unrestricted net position excluding the sum of net position related to pensions and net position related to OPEB. As noted in the Financial Highlights, this is largely affected by the GASB 68 and 75 expenses.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

Summary of Revenues, Expenses, and Changes in Net Position

For the years ended September 30, 2021 and 2020

(In \$000s)

	<u>2021</u>	<u>2020</u>	<u>Incr/ (Decr)</u>	<u>% Change</u>
<u>REVENUE</u>				
Medicaid specialty supports and services	\$ 9,497	\$ 9,068	\$ 429	4.7%
Healthy Michigan Medicaid	1,346	1,086	260	23.9%
State general fund priority population	532	493	39	7.9%
Medicaid Autism	626	313	313	100.1%
Program service revenue	84	47	37	78.7%
Grants and earned contracts	160	250	(90)	-36.0%
County appropriation	292	277	15	5.4%
Interest income	2	20	(18)	-90.0%
Other local income	11	19	(8)	-36.8%
TOTAL REVENUE	<u>12,550</u>	<u>11,573</u>	<u>977</u>	8.5%
<u>EXPENSE</u>				
Program operations	6,182	6,116	66	1.1%
Contractual provider expense	1,850	1,796	54	3.0%
General administration	977	1,257	(280)	-22.3%
Community hospital	915	509	406	79.8%
Residential services	1,417	1,197	220	18.4%
Managed care administration	284	272	12	4.0%
Local funds contributed to State	135	135	-	0.0%
Depreciation	250	250	-	0.0%
Interest expense	80	85	(5)	-5.9%
TOTAL EXPENSE	<u>12,090</u>	<u>11,617</u>	<u>473</u>	4.1%
CHANGE IN NET POSITION	<u>\$ 460</u>	<u>\$ (44)</u>	<u>\$ 504</u>	

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2021

Total Revenues for the year were \$12.550 million compared to \$11.573 million for the prior year, an increase of \$977 thousand or 8.5% for the year.

Medicaid specialty supports and services revenue of \$9.497 million increased \$429 thousand or 4.7% compared to the prior year. This represents 75.7% of total revenue, which is down slightly from the prior year. The increase in Medicaid revenue is a result of increased Medicaid expenses (discussed below). Medicaid specialty supports and services revenue 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 \$241 thousand more than the Per Member Per Month allocation.

Healthy Michigan Medicaid of \$1.346 million increased 260 thousand or 23.9% compared to the prior year. This represents 10.7% of total revenue, which is up slightly from the prior year. This increase is due to an increase in the number of consumers served and volume of services delivered. 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 \$236 thousand more than the Per Member Per Month allocation.

Autism Medicaid Supports and Services revenue of \$626 thousand represents a small portion of total revenue at 5.0% 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 \$206 thousand more than the Per Member Per Month allocation.

State General Fund priority population revenue (formula funding) of \$532 thousand increased \$39 thousand or 7.9% compared to the prior year. State general fund revenue represents 4.2% of total revenue, which is down slightly from 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 2021 resulting in the increase in revenue to HBH. Over the next 2 years, the funding will increase by \$64 per year until the revised formula funding is realized.

Program service revenue of \$84 thousand includes charges for services to consumers not covered by Medicaid subcontracts, State General Funds or other contract or grant revenue sources. These have increased \$37 thousand or 78.7% from the prior year. These represent 0.7% of total revenue, which is up slightly from 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 net position.

Grants and earned contract revenue of \$160 thousand includes revenue sources for which the use of funds is restricted to a specific purpose. These have decreased \$(90) thousand or (36.0)% from the prior year. These represent 1.3% of total revenue. The decrease is related to not receiving \$79 thousand of MDHHS grant funding for COVID-19 related expenses and services that were received in FY2020.

County appropriation revenue, interest income and other local revenue totaling \$305 thousand are available to meet state matching fund requirements and for other local purposes. These revenue sources represent 2.4% of revenue and have decreased \$11 thousand or (3.5)% from the prior year. The County appropriation is \$292 thousand, including \$70 thousand for senior services and \$29 thousand for prevention activities.

Total expenses of \$12.090 million has increased \$473 thousand or 4.1% compared to the prior year.

Program operations expense of \$6.182 million includes salaries, benefits and other operating costs of direct-operated supports and services programs. These represent 51.1% of total expense, and have increased \$66 thousand or 1.1% from the prior year.

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2021

Contractual provider expense of \$1.850 million includes case management, supported employment, respite, community living supports and other external providers. These represent 15.3% of total expense, and have increased \$54 thousand or 3.0% over the prior year. The increase in contractual provider expense was a net increase over the previous year as cost for some services, like Supported Employment services went down and Autism provider cost went up.

General administration expense of \$977 million represents 8.1% of total expense. These have decreased \$(280) thousand or (22.3)% compared to the prior year. This is due to the decrease in the Net Pension Liability recognizing an expense of \$315 thousand related to GASB 68 expense a decrease of \$151 thousand from the prior year. Also a decrease of \$(568) thousand of GASB 75 OPEB Expense during FY 2021 and decrease of \$(386) thousand from last year.

Community Hospital expense of \$915 thousand is for placement of individuals who were in crisis and need an inpatient placement for care which was an increase of \$406 thousand. As a result of the global pandemic, the number of people requiring inpatient psychiatric care increase significantly in FY2021.

Residential Services expense of \$1.417 million is for service to individuals who require residential support in order to live independently in the community. This was an increase of \$220 thousand due to an increase in the number of consumers requiring placement.

Managed care administration expense of \$284 thousand relates to state contracts held by HBH and to functions delegated to HBH by the regional Medicaid PIHP. These represent 2.3% of total expense. Expenses for this category are approximately the same as the prior year.

Local funds contribution to the State of \$135 thousand relates to local fund that are required to be submitted to the State and represents 1.1% of total expense. This is approximately the same as the prior year.

FUTURE OUTLOOK

This past year has been an unprecedented year of challenges with the onset of the COVID-19 Pandemic in March of 2020. Due to this very contagious virus, Huron Behavioral Health (HBH) had to change the way in which services and supports were provided to consumers. Very quickly, HBH began utilizing telephonic contacts as well as video contacts through Zoom technology. The Michigan Department of Health and Human Services (MDHHS), worked with the Pre-Paid Inpatient Health Plans (PIHP's), Community Mental Health Service Providers (CMHSP's), and the Center for Medicaid/Medicare (CMS) to advocate for changes to policies, procedures and billing codes to allow for all services offered by CMHSP's to be provided via tele-health technologies and able to be billed as face-to-face contacts. There were still many services and supports that needed to be provided in person with the use of Personal Protective Equipment (PPE), which was scarce at times and certain PPE continues to remain difficult to obtain. HBH developed a Pandemic Plan and a subsequent Pandemic Recovery Plan to provide guidelines and protocols to keep the workplace, staff and our consumers safe. Staff were given the tools needed to work from home and a rotating schedule of in-office staff was completed by each program to assure all needs were met while also being able to maintain a safe work environment. This is still in practice at this time.

Due to the demands of the Pandemic, the MDHHS put any plans that they had for system re-design on hold to focus on assuring all changes needed to keep providing safe and effective services and supports during the Pandemic were in place. MDHHS has been working closely with CMHSP and PIHP Director's and weekly to every other week calls occur to assure that MDHHS is up to speed on challenges of the system and providing the necessary support to eliminate any barriers related to the Pandemic that can be eliminated. Also, during this time, the State of Michigan was approved as a Certified Community Behavioral Health Center (CCBHC) demonstration state, which means the focus has changed for system

HURON BEHAVIORAL HEALTH

Management's Discussion and Analysis

For the year ended September 30, 2021

re-design to helping CMHSP's work toward becoming prepared for CCBHC status if they are able and willing to do so. Once the demands and challenges from the Pandemic subside, MDHHS will begin working toward what the system should look like going forward and the one known fact for the future of the Public Behavioral Health system is that it will include CCBHC's, Integrated Behavioral Health Homes and Opioid Health Homes as a starting place. The extent to which the impact will be felt at the local level is yet to be clearly understood. HBH continues to monitor this closely and prepare as best we can given our limited resources.

In ongoing 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. We also continue to work with the Great Lakes Bay Health Center – Thumb Clinic (FQHC) 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 their Mental Health Access Grant 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 continue in the Harbor Beach and Port Hope areas through this grant and have expanded to a location in Bad Axe during this year. Our collaboration continues to help educate the community on this valuable service to enhance mental health treatment in our county for those not typically qualifying for HBH services.

Due to MDHHS's revision to the General Fund (GF) allocation methodology, HBH is on year 3 of a 5-year increase in GF funding. HBH continues to maximize services to indigent consumers while staying within the spending authorization – it remains a delicate balance. Also, during this year, COVID funding allowed HBH to open its' doors to providing services to those who would not typically qualify for specialty mental health services but who may be struggling with mental health issues related to the ongoing Pandemic.

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.

* * * * *

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

	SEPTEMBER 30,	
	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and deposits	\$ 2,835,588	\$ 2,013,370
Accounts receivable - net	30,181	23,263
Due from other governmental units	699,645	843,831
Prepaid expenses	45,393	35,827
TOTAL CURRENT ASSETS	<u>3,610,807</u>	<u>2,916,291</u>
NONCURRENT ASSETS		
Cash - restricted	631,243	626,814
Capital assets - nondepreciable	112,599	112,599
Capital assets - net of depreciation	4,372,392	4,581,388
Net other post-employment benefits	2,249,263	1,391,223
TOTAL NONCURRENT ASSETS	<u>7,365,497</u>	<u>6,712,024</u>
TOTAL ASSETS	<u>10,976,304</u>	<u>9,628,315</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Related to pensions	1,640,501	1,003,765
Related to post-employment benefits other than pensions	-	105,346
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,640,501</u>	<u>1,109,111</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	483,249	378,647
Due to service providers	256,123	221,200
Due to other governmental units	357,975	119,772
Accrued payroll	222,652	201,253
Accrued health insurance	90,500	80,400
Unearned revenue	27,648	23,396
Current portion long-term debt	141,028	136,232
TOTAL CURRENT LIABILITIES	<u>1,579,175</u>	<u>1,160,900</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	573,258	570,700
Accrued severance pay	33,250	31,625
Mortgage payable - net of current	2,090,380	2,230,349
Net pension liability	3,663,137	3,419,279
TOTAL NONCURRENT LIABILITIES	<u>6,360,025</u>	<u>6,251,953</u>
TOTAL LIABILITIES	<u>7,939,200</u>	<u>7,412,853</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Related to pensions	708,775	-
Related to post-employment benefits other than pensions	184,201	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>892,976</u>	<u>-</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,253,583	2,327,406
Unrestricted	1,531,046	997,167
TOTAL NET POSITION	<u>\$ 3,784,629</u>	<u>\$ 3,324,573</u>

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

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

	YEARS ENDED SEPTEMBER 30,	
	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Medicaid specialty managed care capitation	\$ 11,468,694	\$ 10,466,329
Medicaid fee for service	-	227
Earned contracts	23,305	98,762
Client and third party pay	87,282	48,830
Federal grants	45,731	48,769
State grants	532,079	492,927
County appropriations	292,260	277,388
Other operating revenue	94,193	119,661
TOTAL OPERATING REVENUES	<u>12,543,544</u>	<u>11,552,893</u>
OPERATING EXPENSES		
Salaries & wages	3,899,213	3,857,658
Fringe benefits	1,492,169	1,714,886
Board per diem	7,503	3,368
Building rental	14,833	14,833
Consumer food, clothing	150	373
Contract residential	1,417,167	1,197,128
Contractual other	3,041,307	3,063,509
Depreciation	250,230	249,706
Inpatient - private	914,912	509,144
Medical	324,325	277,912
Other operating expense	44,567	71,149
Printing, postage & advertising	17,614	15,723
Repairs & maintenance	135,522	123,347
Supplies	143,744	149,247
Telephone	49,814	41,719
Travel	50,257	50,631
Utilities	71,939	60,736
Local funds paid to PIHP	134,712	134,712
TOTAL OPERATING EXPENSES	<u>12,009,978</u>	<u>11,535,781</u>
OPERATING INCOME (LOSS)	<u>533,566</u>	<u>17,112</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	2,095	19,995
Interest expense	(80,388)	(85,241)
Gain (loss) on sale of capital assets	4,783	3,847
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(73,510)</u>	<u>(61,399)</u>
CHANGE IN NET POSITION	<u>460,056</u>	<u>(44,287)</u>
NET POSITION - BEGINNING OF THE YEAR	3,324,573	3,368,860
NET POSITION - END OF THE YEAR	<u>\$ 3,784,629</u>	<u>\$ 3,324,573</u>

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

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

STATEMENTS OF CASH FLOWS

	YEARS ENDED SEPTEMBER 30,	
	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from state and other governments	\$ 12,482,950	\$ 11,163,159
Receipts from customers and users	202,114	279,325
Payments to suppliers and service providers	(5,992,701)	(5,608,098)
Payments to employees for salaries and benefits	(5,615,799)	(5,158,377)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>1,076,564</u>	<u>676,009</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of capital assets	4,783	3,847
Purchase of capital assets	(41,234)	(122,929)
Principal payments on long-term debt	(135,173)	(130,320)
Interest payments on long-term debt	(80,388)	(85,241)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(252,012)</u>	<u>(334,643)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	2,095	19,995
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>2,095</u>	<u>19,995</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	<u>826,647</u>	<u>361,361</u>
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	<u>2,640,184</u>	<u>2,278,823</u>
CASH AND RESTRICTED CASH - END OF THE YEAR	<u>\$ 3,466,831</u>	<u>\$ 2,640,184</u>
RECONCILIATION TO THE STATEMENT OF FINANCIAL POSITION:		
Cash and deposits	\$ 2,835,588	\$ 2,013,370
Cash - restricted	631,243	626,814
ENDING CASH AND DEPOSITS	<u>\$ 3,466,831</u>	<u>\$ 2,640,184</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

STATEMENTS OF CASH FLOWS

	YEARS ENDED SEPTEMBER 30,	
	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income (loss)	533,566	17,112
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation expense	250,230	249,706
Changes in assets and liabilities:		
Accounts receivable - net	(6,918)	12,072
Due from other governmental units	144,186	(122,481)
Prepaid expenses	(9,566)	78,291
Net other post-employment benefits	(858,040)	(516,966)
Deferred outflow - related to pensions	(636,736)	515,419
Deferred outflow - related to OPEB	105,346	361,653
Accounts payable	104,602	(26,839)
Due to service providers	34,923	(17,708)
Due to other governmental units	238,203	58,469
Accrued payroll	21,399	33,165
Accrued health insurance	10,100	22,940
Unearned revenue	4,252	13,220
Accrued compensated absences	2,558	72,613
Accrued severance pay	1,625	1,625
Net pension liability	243,858	311,796
Deferred inflow - related to pensions	708,775	(360,540)
Deferred inflow - related to OPEB	184,201	(27,538)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,076,564</u>	<u>\$ 676,009</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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 activities. 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.

Change in Fund Presentation

In the prior year, the operations of the Authority were presented as a special revenue fund. During the current year, the operations of the Authority were presented as an enterprise fund. This change was made to more closely reflect operations. No restatement of net position was required as a result of this change.

Government-Wide and Fund Financial Statements

The operations of the Authority are accounted for as an enterprise fund (a type of proprietary fund), which is designed to be self-supporting. Enterprise funds distinguish operating revenues and expenses from nonoperating items. The principle operating revenues of the Authority are charges related to serving its customers (including primarily "per member per month" capitation and state and county appropriations). Operating expense for the Authority includes cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses including investment income and interest expense.

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

The 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, 2021 AND 2020**

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

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. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenue, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

Mental Health Operating Fund – This fund is Huron Behavioral Health's primary operating fund. It is used to account for those activities that are financed and operated in a manner similar to private business related to revenues earned, costs incurred, and/or net income.

Cash and Deposits

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 \$97,122 and \$39,556 at September 30, 2021 and 2020, respectively.

Prepaid Expenses

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

Capital Assets

Capital assets, which include property and equipment, are reported in the 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.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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

Capital Assets (Continued)

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

Unearned Revenues

The Authority reports unearned revenue when resources are received by the Authority before it has a legal claim to them, such as when grant money is received prior to the incurrence of qualifying expenses. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

Incurred But Not Reported Claims Liability

The amounts recorded in current liabilities include amounts for incurred patient, residential and community provider claims and employee health care claims liability based on management's estimates. The Authority may not be billed for these until several months after the date of service. The actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumers 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 liability for such leave is reported as incurred in the financial statements. The liability includes salary related benefits, where applicable.

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) until then. The Authority has one item that qualifies for reporting in this category. It is related to pensions reported in the 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, change in assumptions, and actual experience compared to the plan projections.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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

Deferred Outflows and Inflows of Resources (Continued)

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 Statement of Net Position. This represents the effect of the net change in the Authority's net pension liability related to its investment returns. The second item relates to the OPEB reporting in the Statement of Net Position. This represents the effect of the net change in the Authority's net OPEB liability (asset) related to its investment returns.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Economic Dependence

A material portion of the CMH Board's source of revenue (95%) 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 expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Authority has evaluated subsequent events through February 1, 2022, the date that the financial statements were available to be issued.

NOTE 2 – CASH AND DEPOSITS:

The Authority's cash balances are as follows:

	<u>2021</u>	<u>2020</u>
Carrying amount of cash and deposits		
Unrestricted	\$2,835,588	\$2,013,370
Restricted	<u>631,243</u>	<u>626,814</u>
Total carrying amount of cash and deposits	<u>\$3,466,831</u>	<u>\$2,640,184</u>

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

	<u>2021</u>	<u>2020</u>
Bank balance of cash and deposits		
Insured by FDIC	\$1,873,955	\$1,366,360
Uninsured and uncollateralized	<u>2,046,360</u>	<u>1,378,281</u>
Total bank balance of cash and deposits	<u>\$3,920,315</u>	<u>\$2,744,641</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

NOTE 2 – CASH AND DEPOSITS: (CONTINUED)

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

	<u>2021</u>	<u>2020</u>
Restricted cash balances		
Compensated absences	\$573,258	\$570,700
Severance pay	33,250	31,625
Other restricted cash	<u>24,735</u>	<u>24,489</u>
Total restricted cash	<u>\$631,243</u>	<u>\$626,814</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.

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

NOTE 3 – DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other governmental units consists of the following:

	<u>2021</u>	<u>2020</u>
State of Michigan	\$ 19,587	\$ 20,204
Mid-State Health Network	630,058	673,263
Other CMHs	<u>50,000</u>	<u>150,364</u>
Total	<u>\$699,645</u>	<u>\$843,831</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

NOTE 4 – CHANGES IN CAPITAL ASSETS:

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

	<u>2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>2021</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	6,426	-	162,555
Office equipment	316,527	-	-	316,527
Computer equipment	429,603	34,809	-	464,412
Transportation equipment	<u>741,892</u>	<u>-</u>	<u>-</u>	<u>741,892</u>
Total depreciable assets	<u>\$6,704,781</u>	<u>\$ 41,235</u>	<u>\$ -</u>	<u>\$6,746,016</u>

Net capital

	<u>2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>2021</u>	<u>Assets</u>
Accumulated depreciation					
Land improvements	\$ 95,818	\$ 16,100	\$ -	\$ 111,918	\$ 494,435
Buildings	777,777	108,064	-	885,841	3,568,436
Building improvements	83,508	6,922	-	90,430	72,125
Office equipment	290,688	3,303	-	293,991	22,536
Computer equipment	300,103	55,574	-	355,677	108,736
Transportation equipment	<u>575,500</u>	<u>60,267</u>	<u>-</u>	<u>635,767</u>	<u>106,124</u>
Total	<u>\$2,123,394</u>	<u>\$250,230</u>	<u>\$ -</u>	<u>\$2,373,624</u>	<u>\$4,372,392</u>

NOTE 5 – DUE TO OTHER GOVERNMENTAL UNITS:

Due to other governmental units consists of the following:

	<u>2021</u>	<u>2020</u>
State of Michigan	\$ 17,830	\$ 41,875
Mid-State Health Network	311,126	67,480
Other CMHs	<u>29,019</u>	<u>10,417</u>
Total	<u>\$ 357,975</u>	<u>\$119,772</u>

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.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

NOTE 7 – LONG-TERM OBLIGATIONS:

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

	<u>2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>2021</u>	<u>Due within one year</u>
Accrued severance pay	\$ 31,625	\$ 1,625	\$ -	\$ 33,250	\$ -
Accrued compensated absences	570,700	2,558	-	573,258	-
Mortgage payable	<u>2,366,581</u>	<u>-</u>	<u>135,173</u>	<u>2,231,408</u>	<u>141,028</u>
Totals	<u>\$2,968,906</u>	<u>\$ 4,183</u>	<u>\$135,173</u>	<u>\$2,837,916</u>	<u>\$141,028</u>

Accrued 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.

Accrued 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, 2021 and 2020 amounted to \$80,388 and \$85,241, respectively.

The annual requirements to amortize the mortgage payable outstanding are:

<u>Years Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 141,028	\$ 75,592	\$ 216,620
2023	144,930	70,631	215,561
2024	151,237	64,324	215,561
2025	156,523	59,038	215,561
2026	161,993	53,568	215,561
2027-2031	898,945	178,859	1,077,804
2032-2034	<u>576,752</u>	<u>28,480</u>	<u>605,232</u>
Totals	<u>\$2,231,408</u>	<u>\$530,492</u>	<u>\$2,761,900</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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, 2021 and 2020.

NOTE 9 – OPERATING LEASES:

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

The lease also provides for an optional renewal term with monthly lease payments to be determined based on an agreed upon formula. The lease further provides for cancellation by the Authority in the event funding is terminated, reduced or licensing is withheld. Lease expense for the residential housing facility amounted to \$14,833 and \$14,833 for the years ended September 30, 2021 and 2020, respectively.

NOTE 10 – PENSION BENEFITS

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.

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:

	2020 Valuation	2019 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%
DC Plan for New Hires	12/31/2019	12/31/2019
Act 88:	Yes-Adopted 10/1/12	Yes-Adopted 10/1/12

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – PENSION BENEFITS: (CONTINUED)

Employees Covered by Benefit Terms:

At the December 31, 2020 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	52
Inactive employees entitled to but not yet receiving benefits	47
Active employees	<u>56</u>
Total	<u>155</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 15.8% based on annual payroll for open divisions.

Net Pension Liability:

The employer's Net Pension Liability was measured as of December 31, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions:

The total pension liability in the December 31, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.00% in the long-term
- Investment rate of return: 7.35%, 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.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – PENSION BENEFITS: (CONTINUED)

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study of 2013-2018. The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Target Gross Rate of Return</u>	<u>Long-Term Expected Gross Rate of Return</u>	<u>Inflation Assumption</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	60.00%	7.75%	4.65%	2.50%	3.15%
Global Fixed Income	20.00%	3.75%	0.75%	2.50%	0.25%
Private Investments	20.00%	9.75%	1.95%	2.50%	1.45%

Discount Rate:

The discount rate used to measure the total pension liability is 7.6% for 2020. 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.

Changes in Net Pension Liability:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance at December 31, 2019	<u>\$21,785,565</u>	<u>\$18,366,286</u>	<u>\$3,419,279</u>
Change for the year			
Service cost	451,763	-	451,763
Interest on total pension liability	1,633,524	-	1,633,524
Employer contributions	-	468,598	(468,598)
Employee contributions	-	169,469	(169,469)
Net investment income	-	2,341,224	(2,341,224)
Benefit payments	(1,035,424)	(1,035,424)	-
Difference between expected and actual experience	(2,921)	-	(2,921)
Changes of assumptions	1,103,814	-	1,103,814
Administrative expense	-	(36,969)	36,969
Net change	<u>2,150,756</u>	<u>1,906,898</u>	<u>243,858</u>
Balance at December 31, 2020	<u>\$23,936,321</u>	<u>\$20,273,184</u>	<u>\$3,663,137</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – PENSION BENEFITS: (CONTINUED)

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 7.6%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.6%) or 1% higher (8.6%) than the current rate.

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Net Pension Liability at 12/31/2020	\$ 6,685,520	\$ 3,663,137	\$ 1,158,284

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.

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

For the year ended December 31, 2020 the employer recognized pension expense (income) of \$315,897 due to the increase in the net pension liability and the related deferred outflows.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 171,564	\$ -
Changes of assumptions	1,096,391	-
Contributions subsequent to the measurement date	372,546 *	-
Net difference between projected and actual earnings on pension plan investments	-	708,775
Total	<u>\$1,640,501</u>	<u>\$ 708,775</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, 2021. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31,	
2021	\$ 490,294
2022	653,597
2023	(392,332)
2024	(192,379)
	<u>\$ 559,180</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – PENSION BENEFITS: (CONTINUED)

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

Defined Contribution Retirement Plan

The Authority closed the defined benefit pension plan to all employees hired after December 31, 2019. Employees hired after that date will be covered by a defined contribution pension plan that defines the contributions that will be made by the employee and employer. Effective January 1, 2020, the Authority set up a defined contribution plan that will be offered to all new employees through MERS.

Employee contribution rates can range from 0% to 15% of eligible wages and are elected by the employee. The Authority's employer contribution rate was established at 6% of the employees' eligible wages with an additional 3% match of the employees' voluntary election. Contributions made to the plan by an employee remain 100% vested in their interest. Employees who achieve 3 years of service are 50% vested in employer contributions. Employees who achieve 5 years of service are 100% vested in employer contributions. Should they terminate prior to this 5-year period, unvested employer contributions are forfeited to the plan. Amounts forfeited are held in a separate plan forfeiture account and can be used to pay the administrative expenses of the plan. Total pension expense related to the defined contribution retirement plan for the years ended September 30, 2021 and 2020 were \$29,838 and \$6,324, respectively.

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).

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.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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.
- 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).

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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

Employees Covered by Benefit Terms:

At the December 31, 2020 valuation date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	1
Active plan members	<u>6</u>
Total plan members	<u><u>31</u></u>

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, 2020, 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, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Price Inflation: 2.50%
- Salary Increases: 2.50%
- Investment Rate of Return: 7.35%, 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-2020.

Single Discount Rate:

A single discount rate of 7.35% 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 7.35%. 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.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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

Changes in Net OPEB Liability (Asset):

	Increase (Decrease)		
	TOTAL OPEB LIABILITY	PLAN FIDUCIARY NET POSITION	NET OPEB LIABILITY (ASSET)
	(a)	(b)	(a) - (b)
Balance at December 31, 2019	<u>3,759,362</u>	<u>5,150,585</u>	<u>(1,391,223)</u>
Change for the year			
Service cost	8,904	-	8,904
Interest on total OPEB liability	269,786	-	269,786
Net investment income	-	657,431	(657,431)
Change in actuarial assumptions	(288,155)	-	(288,155)
Benefit payments	(195,410)	(195,410)	-
Difference between expected and actual experience	(200,187)	-	(200,187)
Administrative expense	-	(9,043)	9,043
Net change	<u>(405,062)</u>	<u>452,978</u>	<u>(858,040)</u>
Balance at December 31, 2020	<u>\$ 3,354,300</u>	<u>\$ 5,603,563</u>	<u>\$ (2,249,263)</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 7.35%, as well as what the employer's Net OPEB Liability (Asset) would be using a single discount rate that is 1 percent lower (6.35%) or 1 percent higher (8.35%) than the current rate.

	1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
Net OPEB Liability (Asset)	<u>\$ (1,937,602)</u>	<u>\$ (2,249,263)</u>	<u>\$ (2,515,178)</u>

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.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability (Asset)	<u>\$ (2,527,514)</u>	<u>\$ (2,249,263)</u>	<u>\$ (1,925,901)</u>

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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

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

For the fiscal year ended September 30, 2021 the employer recognized OPEB expense (income) of \$(568,493). The employer reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on OPEB plan investments	<u>\$ 184,201</u>
Total	<u>\$ 184,201</u>

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

<u>Years ending September 30,</u>	
2021	\$ 3,171
2022	(12,580)
2023	(117,517)
2024	<u>(57,275)</u>
	<u><u>\$(184,201)</u></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

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.

**HURON BEHAVIORAL HEALTH
HURON COUNTY, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

NOTE 13 – RISK MANAGEMENT: (CONTINUED)

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, 2021 and 2020, the cost of the employee's health care benefits totaled \$703,016 and \$603,421, 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 – UPCOMING ACCOUNTING PRONOUNCEMENT:

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted during fiscal year 2022. 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.

NOTE 15 – RISKS AND UNCERTAINTIES:

Risk Factors: Although we are monitoring the effects of a widespread outbreak of a contagious respiratory illness caused by a novel coronavirus (COVID-19), we cannot predict whether, for how long, or the extent to which the outbreak may disrupt our operations. A prolonged outbreak could negatively impact our consumers, cause interruptions to our operations, including the reduction of operating hours, temporary closures, the disruption of our labor force, and adversely affect our results of operations. More generally, a widespread health crisis could adversely affect the U.S. economy, resulting in an economic downturn that could decrease consumer confidence and affect demand for our services and therefore impact our results, including our business and financial outlook for fiscal 2022. Any adverse impact on our results of operations, business or financial outlook could be material.

REQUIRED SUPPLEMENTARY INFORMATION

**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>	<u>2019</u>	<u>2020</u>
Total pension liability							
Service cost	\$ 360,168	\$ 380,571	\$ 410,110	\$ 429,525	\$ 436,534	\$ 463,142	\$ 451,763
Interest	1,142,974	1,184,580	1,340,706	1,399,470	1,487,682	1,548,380	1,633,524
Difference between expected and actual experience	-	117,223	(376,436)	(17,409)	(386,590)	347,023	(2,921)
Changes of assumptions	-	825,693	-	-	-	721,032	1,103,814
Benefit payments including employee refunds	(528,241)	(592,385)	(624,186)	(674,881)	(750,019)	(834,382)	(1,035,424)
Other	-	37,019	-	-	-	-	-
Net change in total pension liability	974,901	1,952,701	750,194	1,136,705	787,607	2,245,195	2,150,756
Total pension liability - beginning	13,938,262	14,913,163	16,865,864	17,616,058	18,752,763	19,540,370	21,785,565
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>	<u>\$ 21,785,565</u>	<u>\$ 23,936,321</u>
Plan fiduciary net position							
Contributions-employer	\$ 256,616	\$ 259,250	\$ 250,582	\$ 440,321	\$ 419,481	\$ 397,989	\$ 468,598
Contributions-employee	138,644	151,788	148,022	158,030	166,043	171,225	169,469
Net investment income	873,694	(218,670)	1,601,485	2,042,556	(682,593)	2,237,129	2,341,224
Benefit payments including employee refunds	(528,241)	(592,385)	(624,186)	(674,881)	(750,019)	(834,382)	(1,035,424)
Administrative expense	(32,130)	(31,852)	(31,601)	(32,310)	(33,678)	(38,562)	(36,968)
Net change in plan fiduciary net position	708,583	(431,869)	1,344,302	1,933,716	(880,766)	1,933,399	1,906,899
Plan fiduciary net position - beginning	13,758,920	14,467,503	14,035,634	15,379,936	17,313,652	16,432,886	18,366,285
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>	<u>\$ 18,366,285</u>	<u>\$ 20,273,184</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>	<u>\$ 3,419,279</u>	<u>\$ 3,663,137</u>
Plan fiduciary net position as a percentage of the total pension liability	97.0%	83.2%	87.3%	92.3%	84.1%	84.3%	84.7%
Covered employee payroll	\$ 2,699,913	\$ 2,852,859	\$ 3,011,086	\$ 3,142,097	\$ 3,198,053	\$ 3,339,167	\$ 3,163,607
Employer's net pension liability as a percentage of covered employee payroll	16.5%	99.2%	74.3%	45.8%	97.2%	102.4%	115.8%

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>	<u>2020</u>	<u>2021</u>
Actuarial determined contributions	\$ 250,440	\$ 207,996	\$ 244,884	\$ 344,616	\$ 381,204	\$ 434,616	\$ 496,680
Contributions in relation to the actuarially determined contribution	252,456	239,523	421,361	408,372	385,380	458,845	645,550
Contribution deficiency (excess)	<u>\$ (2,016)</u>	<u>\$ (31,527)</u>	<u>\$ (176,477)</u>	<u>\$ (63,756)</u>	<u>\$ (4,176)</u>	<u>\$ (24,229)</u>	<u>\$ (148,870)</u>
Covered employee payroll	\$ 2,699,913	\$ 2,852,859	\$ 3,011,086	\$ 3,142,097	\$ 3,368,728	\$ 3,411,300	\$ 3,272,740
Contributions as a percentage of covered employee payroll	9.4%	8.4%	14.0%	13.0%	11.4%	13.5%	19.7%

Notes to Schedule

Actuarial cost method	Entry age -
Amortization method	Level percentage of payroll, open
Remaining amortization period	18 years
Asset valuation method	5 year smoothed
Inflation	2.5%
Salary increases	3.00%
Investment rate of return	7.35%
Retirement age	60
Mortality	50% Female / 50% Male - 2014 Healthy Annuitant Mortality Tables, with rates multiplied 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>	<u>2019</u>	<u>2020</u>
Year ended December 31,				
Total OPEB liability				
Service cost	\$ 25,485	\$ 25,904	\$ 13,524	\$ 8,904
Interest	263,031	264,187	260,385	269,786
Difference between expected and actual experience	(8,861)	(63,699)	15,232	(200,187)
Changes of assumptions	-	(38,269)	(118,465)	(288,155)
Benefit payments including employee refunds	(232,687)	(225,017)	(235,139)	(195,410)
Other	-	(47,432)	-	-
Net change in total OPEB liability	<u>46,968</u>	<u>(84,326)</u>	<u>(64,463)</u>	<u>(405,062)</u>
Total OPEB liability - beginning	<u>3,861,183</u>	<u>3,908,151</u>	<u>3,823,825</u>	<u>3,759,362</u>
Total OPEB liability - ending	<u><u>\$ 3,908,151</u></u>	<u><u>\$ 3,823,825</u></u>	<u><u>\$ 3,759,362</u></u>	<u><u>\$ 3,354,300</u></u>
Plan fiduciary net position				
Net investment income (loss)	263,173	(175,246)	\$ 624,597	\$ 657,431
Benefit payments including employee refunds	(232,687)	(225,017)	(178,828)	(195,410)
Administrative expense	(12,203)	(12,197)	(8,896)	(9,043)
Other	-	85,102	15,630	-
Net change in plan fiduciary net position	<u>18,283</u>	<u>(327,358)</u>	<u>452,503</u>	<u>452,978</u>
Plan fiduciary net position - beginning	<u>5,007,157</u>	<u>5,025,440</u>	<u>4,698,082</u>	<u>5,150,585</u>
Plan fiduciary net position - ending	<u><u>\$ 5,025,440</u></u>	<u><u>\$ 4,698,082</u></u>	<u><u>\$ 5,150,585</u></u>	<u><u>\$ 5,603,563</u></u>
Employer net OPEB liability (asset)	<u><u>\$ (1,117,289)</u></u>	<u><u>\$ (874,257)</u></u>	<u><u>\$ (1,391,223)</u></u>	<u><u>\$ (2,249,263)</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	128.6%	122.9%	137.0%	167.1%
Covered employee payroll	\$ 639,117	\$ 611,417	\$ 561,815	\$ 399,712
Employer's net OPEB liability (asset) as a percentage of covered employee payroll	-174.8%	-143.0%	-247.6%	-562.7%

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 business-type activities of Huron Behavioral Health, as of and for the years ended September 30, 2021 and 2020, 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 February 1, 2022.

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) as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Nietzke & Faupel, PC

Nietzke & Faupel, PC
Pigeon, Michigan

February 1, 2022

February 1, 2022

To the Board
Huron Behavioral Health
Bad Axe, Michigan

We have audited the financial statements of the business-type activities and each major fund of Huron Behavioral Health for the year ended September 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 11, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Huron Behavioral Health are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by Huron Behavioral Health during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Authority's financial statements was:

Management's estimate of the liabilities for incurred but not reported claims in client inpatient services that have been provided but for which no bill has been received from the inpatient provider is based on management's experience and knowledge of past and current services provided. We evaluated the key factors and assumptions used to develop the liabilities for incurred but not reported claims in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements were:

The disclosure of the employee retirement system and related net pension liability in Note 10 to the financial statements provides detailed information of the employee retirement plan and information related to how the net pension liability was calculated.

The disclosure of the employee post-employment benefits other than pensions and the related net OPEB asset in Note 12 to the financial statements provides detailed information of the employee other post-employment benefit plan and information related to how the net OPEB asset was calculated.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 1, 2022.

Management Consultations with Other Independent Accountants

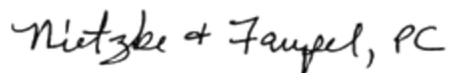
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Huron Behavioral Health's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Huron Behavioral Health's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the information and use of the Authority's Board and management of Huron Behavioral Health and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Nietzke & Faupel, PC".

Nietzke & Faupel, P.C.
Pigeon, Michigan

2021	<u>Qualifying Statement</u>	Huron Behavioral Health	Brian Hazard	02/08/2022	Submitted			
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Qualifying Statement

Issued under Public Act 34 of 2001, as amended.

HBH
Qualifying Statement - Submitted
9/30/2021

R-06.2
KB 2-8-2022

County: HURON

Type: Authority

Local Unit Name: Huron Behavioral Health

Municode: 32-7-509

FY Ending: 2021

Year End Month: 9

Qualifying Statements filed prior to the Audit Report MAY RESULT in the Qualifying Statement being denied

1. *During the fiscal year for which this qualifying statement is being submitted, was the municipality required by the terms of a court order OR judgment to levy a tax? No
 2. a. *Enter the total fund balance remaining in all unlimited tax levy funded debt retirement funds at the end of the fiscal year for which this qualifying statement is being submitted.
\$0.00
b. *Enter the total amount of principal and interest payments due the fiscal year immediately following the fiscal year for which this qualifying statement is being submitted for all outstanding municipal securities funded from an unlimited tax levy. \$0.00
 3. *Is the municipality currently exceeding its statutory or constitutional debt limits? No
 4. *Are all outstanding securities of the municipality authorized by statute? Yes
 5. *Is the municipality in violation of any provision in the covenants for an outstanding security currently or in the fiscal year for which this qualifying statement is being submitted?
a. *Short-term municipal security set-aside requirements? No
b. *Statutory debt limitations for short-term municipal securities? No
c. *Required funding levels for revenue bond reserve accounts? No
d. *Other? No
 6. *During the fiscal year for which this qualifying statement is being submitted, was the municipality delinquent (greater than 30 days beyond the due date) more than one time IN ANY of the following?
a. *Transferring employee taxes withheld to the appropriate agency? No
b. *Transferring taxes collected as an agent for another taxing entity to that taxing unit? No
c. *In making all required pension, retirement or benefit plan contributions? No
 7. a. *Enter the total dollar amount of the property taxes levied by the municipality that became delinquent as of the most recent March 1. \$0.00
b. *Enter the total dollar amount of property taxes that were levied by the municipality in the calendar year, related to the delinquencies. \$0.00
 8. *Did the municipality submit a qualifying statement or an application for any other municipal security to the Department of Treasury in the preceding 12 months that was materially false or incorrect? No
 9. *Is the municipality in default on the payment of any debt for which it is financially liable for? No
 10. *Did the municipality end the fiscal year for which this qualifying statement is being submitted with a deficit in any fund, has a deficit elimination plan been certified or conditionally approved by the Department of Treasury (or by the Department of Education as applicable)? N/A
- NOTE: IF the municipality did not end the fiscal year with a deficit, answer NA.**
11. *As determined by a court of competent jurisdiction, did the municipality violate any State or Federal finance or tax related statutes during the fiscal year for which this qualifying statement is being submitted? No
 12. *Has the municipality been in compliance of the provisions of Public Act 34 of 2001, including the timely filing of a security report, filing fee and any other required documents for each municipal security issued during the fiscal year for which this qualifying statement is being submitted? Yes
 13. *During the fiscal year for which this qualifying statement is being submitted, did the municipality issue a refunding security to avoid a potential default on an outstanding security? No

Please provide the following					
*Chief Administrative Officer:		Anthony Ferzo		*Email Address:	anthony@huroncmh.com
If applicable please provide the following					
Bond Attorney:		Firm Name:		Email Address:	
Financial Consultant:		Firm Name:		Email Address:	
Certified Public Accountant:	Brian Hazard	Firm Name:	Nietzke & Faupel, P.C.	Email Address	bhazard@nfcpa.com
Yes	*I certify that the Chief Administrative Officer is aware of the information included in this filing and has asserted to me that this is complete and accurate in all respects. It is understood (by the CAO and/or myself) that providing false information for this is a misdemeanor pursuant to the Michigan Penal Code (MCL 750.489).				