# Mid-State Health Network

**Financial Statements**
*September 30, 2018*

Roslund Prestage & Company
Certified Public Accountants

Mid-State Health Network
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September 30, 2018

RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditor's Report

Mid-State Health Network
Lansing, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Mid-State Health Network (the Entity), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Entity, as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, 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 issued under separate cover, on our consideration of the Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

February 25, 2019

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# MID-STATE HEALTH NETWORK
## Management's Discussion and Analysis

The summary financial information contained in this analysis is presented for the period of October 1, 2017 through September 30, 2018. This analysis will help provide a context for the reader and assist in understanding the financial position of Mid-State Health Network (MSHN).

Mid-State Health Network was formed by the Community Mental Health Services Providers (CMHSP) Participants to serve as the prepaid inpatient health plan (PIHP) for the twenty-one counties designated by the Michigan Department of Health and Human Services (MDHHS) as Region 5. The CMHSP Participants include Bay-Arenac Behavioral Health; Clinton-Eaton-Ingham Community Mental Health Authority; Community Mental Health for Central Michigan; Gratiot Community Mental Health Authority; Huron County Community Mental Health Authority; Ionia County Community Mental Health Authority; LifeWays Community Mental Health Authority; Montcalm County Community Mental Health Authority; Newaygo County Community Mental Health Authority; Saginaw County Community Mental Health Authority; Shiawassee County Community Mental Health Authority; and Tuscola Community Mental Health Authority.

### Financial Highlights

- Unearned revenue at year end was $22,455,365 which consists of $9,072,390 of Medicaid savings and $13,382,975 of Public Act 2 (PA2) savings.
- The internal service fund (ISF) at year end was $41,545,608 which consists of $35,653,996 for Medicaid risk management and $5,891,612 for Healthy Michigan Plan risk management. The ISF is funded at the maximum amount allowed per the MDHHS contract.
- The total net position at year end was $45,765,163.

### Operational Highlights

- Performance Based Incentive – In FY2018, MSHN earned $4,218,615 in Performance Bonus Incentive Payment (PBIP) funds for activities related to the following compliance metrics:
    - partnering with other health plans to reduce non-emergent emergency department use and increase data sharing,
    - increased participation in patient-centered medical homes, and
    - identification of individuals who may be eligible for services from the Veterans Administration

  PBIP funds earned are considered restricted local and may be used for the benefit of the public behavioral health system. Earned funds are disbursed to the CMHSPs based on Operating Agreement requirements.

- Value-Based Pilots – Pilots with our Substance Abuse Prevention and Treatment (SAPT) Providers to provide integrated care and to monitor population health through value-based service contracts continue to demonstrate positive outcomes through improved person-centered care and coordination of services with primary care and mental health.

- Managed Care Information System – MSHN's implementation of its managed care software, known as the Regional Electronic Management Information (REMI) System, went live on February 1, 2018. Because of the transition to new management software, MSHN reached a milestone with Substance Use Disorder Behavioral Health Treatment Episode Data Set (SUD BH-TEDS) by achieving 97% compliance with the reporting requirements. Other milestones include a regional provider directory, claims and encounter processing, and reduced administrative costs through elimination of multiple administrative service contracts.

- State Targeted Response Grant – MSHN received Substance Abuse and Mental Health Services Administration (SAHMSA) grant funding through MDHHS targeted at impacting the nationwide opioid epidemic. The grant included five primary activities focused at increased awareness and prevention of opioid overdoses and expansion of medication-assisted treatment services.

- Increased Financial Oversight for Substance Use Disorder Services – During FY2018, MSHN increased the financial oversight of Substance Abuse Prevention and Treatment (SAPT) providers based on Code of Federal Regulation (CFR) requirements. The monitoring and oversight activities are performed in conjunction with the Quality Assurance and Performance Improvement (QAPI) and Prevention teams. The purpose is to ensure proper management and monitoring of federal disbursements.

**Overview of Financial Statements**

Mid-State Health Network's financial statements include the statement of net position and the statement of revenues, expenditures and changes in net position. These provide both long-term and short-term information and present the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting.

**The Statement of Net Position** presents information on MSHN's assets and liabilities with the difference between assets and liabilities being reported as net position. Changes in net position serve as a useful indicator in determining whether the financial position is improving or deteriorating.

**The Statement of Revenues, Expenses, and Changes in Net Position** presents information showing how net position changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net position is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

**The Statement of Cash Flows** is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources segregated for specific activities or objectives. MSHN, similar to state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of MSHN may be divided into two proprietary fund categories: Enterprise Fund and Internal Service Fund.

**Proprietary Funds - Enterprise Funds**

Enterprise funds account for revenues and expenditures in a separate fund with its own financial statements rather than being commingled with revenue and expenses of the internal service fund. MSHN currently has one enterprise fund in which all financial transactions occur. At year end, activity associated with the internal service fund is reported separately as referenced below. MSHN adopts an annual budget for the enterprise fund and tracks variances between budgeted and actual revenue and expenditures.

**Proprietary Funds – Internal Service Funds**

Internal service funds are used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with MDHHS. Pursuant to these contractual provisions, MSHN's risk management plan has been reviewed and approved by MDHHS.

**Notes to Financial Statements**

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The accompanying notes are an integral part of the financial statements and must be reviewed in conjunction with the information reported on the financial statements to provide a full understanding of MSHN's financial situation.

**Proprietary Funds Financial Analysis – Summary of Net Position**
The following summarizes the assets, liabilities and net position on an agency-wide basis for the years ended September 30, 2018 and September 30, 2017.

**STATEMENT OF NET POSITION**

| | FY 2018 | FY 2017 | Change |
|---|---|---|---|
| Total Assets | $ 101,921,722 | $ 66,138,231 | $ 35,783,491 |
| Total Liabilities | $ 56,156,559 | $ 43,101,965 | $ 13,054,594 |
| Restricted Net Position | 45,764,225 | 23,032,046 | 22,732,179 |
| Net Investment in Capital Assets | 157,650 | 105,100 | 52,550 |
| Unrestricted Net Position | (156,712) | (100,880) | (55,832) |
| Total Net Position | $ 45,765,163 | $ 23,036,266 | $ 22,728,897 |
| Total Liabilities and Net Position | $ 101,921,722 | $ 66,138,231 | $ 35,783,491 |

Total assets consist primarily of cash and investments and amounts due from CMHSP Participants and MDHHS. Cash totaling $36,741,074, or 36.0% of total assets, is unrestricted and available for operations. Cash and investments totaling $29,764,428, or 29.2% of total assets, is restricted for risk management purposes.

Total liabilities consist of accounts payable, accrued payroll and compensated absences, and amounts due to CMHSP Participants and MDHHS. Liabilities also include unearned revenue consisting of Medicaid and PA2 savings. Amounts due to CMHSP Participants and MDHHS total $6,129,190 and represent 10.9% of total liabilities. Unearned revenue totals $22,455,365 and represents 40.0% of total liabilities.

There was an increase of $22,653,512 in restricted net position as a result of funding the internal service fund and an increase in the performance bonus incentive program outlined in the Medicaid Managed Care Specialty Services Program Contract.

**Proprietary Funds Financial Analysis – Summary of Activities**
The following summarizes the revenues, expenses and changes in net position on an agency-wide basis for the years ended September 30, 2018 and September 30, 2017.

**CHANGE IN NET POSITION**

| | FY 2018 | FY 2017 | Change |
|---|---|---|---|
| Total Revenue | $ 575,101,305 | $ 522,448,615 | $ 52,652,690 |
| Total Expenses | $ 552,372,408 | $ 518,886,954 | $ 33,485,454 |
| Change in Net Position | 22,728,897 | 3,561,661 | 19,167,236 |
| Net Position: | | | |
| Beginning of year | 23,036,266 | 19,474,605 | 3,561,661 |
| End of year | $ 45,765,163 | $ 23,036,266 | $ 22,728,897 |

Total revenue consists of funding received from MDHHS, CMHSP Participants, and local counties and increased $52,652,690, or 10.1%, as compared to FY2017.

Total expenses consist of funding provided for the delivery of mental health and substance use disorder services throughout the MSHN region along with administrative expenses. Total expenses increased $33,485,454, or 6.5%, as compared to FY2017.

**Capital Asset and Debt Administration**

Capital assets consists of implementation costs related to the regional managed care information system. MSHN has no long-term debt.

**Future Outlook**

Possible MDOC integration into the PIHP/MDHHS contract

About 90% of parolees/probationers are either Medicaid or Healthy Michigan Plan eligible and enrolled at the time of their release, making their substance abuse disorder (SUD) treatment needs the responsibility of the public SUD treatment system managed by the PIHPs. A single statewide model is being proposed with Michigan Department of Corrections (MDOC) intended to ensure that parolees/probationers will be able to access the SUD treatment services consistently across the state. MDOC reported that the decision has been made to pursue the strategy of adding the MDOC-related SUD community-based treatment to the MDHHS/PIHP contract. As envisioned by MDOC at this time, this model involves PIHPs managing Medicaid/Healthy Michigan/SAPT Block Grant as currently required for the parolee/probationer population, and MDOC providing funding for MDOC-specified (criminogenically focused or “MARS”) services.

Planning for Section 298 Pilot – Saginaw County Community Mental Health Authority

MSHN has created a CMHSP/PIHP workgroup to make recommendations to MSHN Administration, MSHN Board and participating CMHSPs regarding the position of the region relative to the separation of Saginaw County Community Mental Health Authority from the PIHP for the purposes, and for the duration, of the Section 298 pilots. This includes a full review of Governance, Finance, Provider Network, Clinical, SUD, Technology and related transition planning. The workgroup is charged with addressing, resolving where possible, and making recommendations to the appropriate body including the polices, practices, procedures to be used in the separation process; the outcomes, principles, objectives and activities to be used in managing the separation process; and to make recommendations for revisions to related governing, operational, policy or procedure documents.

Rate Setting and Revenue Analysis

MSHN, along with all PIHPs and various stakeholders, is engaged with MDHHS and Milliman to develop a more equitable rate setting process. There are noted concerns with the current configuration resulting in disproportionate fund distribution. MSHN will analyze all changes to determine the overall impact on the region and make necessary operational adjustments to ensure consumers continue to receive medically necessary services.

Mental Health Parity and Addictions Equity Act of 2008

MSHN needs to ensure compliance with Mental Health Parity and Addictions Equity Act of 2008 as defined in the MDHHS Parity Action Plan to Center for Medicare and Medicaid Services (CMS). Essentially, the rule states there can be no more restrictive limitations on a mental health or substance use disorder than on the same classification of medical/surgical benefits. In order to meet the requirements, PIHPs purchased software (MCG Guidelines) to be utilized for authorizations for acute care services in FY2019. As Utilization Management is a CMHSP-delegated function, the CMHSPs will be required to utilize the software and to provide training for all staff that complete screenings, assessments and authorization for inpatient, crisis residential and continuing stay reviews.

Home and Community-Based Services (HCBS) Rule Transition

The Federal Home and Community-Based Services (HCBS) Rule Transition (aka the "Rule") continues forward. The advance is furthered by the efforts of many to increase choice, freedom, inclusion, and integration of individuals who historically may not have enjoyed the fullness of what each of these important concepts has to offer in quality of life. The Rule requires that individuals have free access to their homes and communities and are empowered with the same degree of decision making as individuals who are not participants in HCBS services. MSHN continues to work on the three major areas (C-Waiver, B3-Waiver, and provisional approval requests) relating to the HCBS Rule transition. MDHHS intends to keep the original compliance date of March 17, 2019 for most HCBS settings despite CMS issuing a due date of March 17, 2022. However, in its commitment to ensuring full compliance, MDHHS will allow providers a reasonable period of time to remediate identified issues provided the corrective action plan is underway before March 17, 2019. Without HCBS Rule compliance, providers cannot continue to accept Medicaid funds for services. MSHN continues to work with its CMHSP partners, the provider systems, and MDHHS to implement this transition process which involves site visits, paper work reviews, and phone calls to oversee and ensure the successful transition of the system to full compliance.

<u>New Program Integrity standards from Office of Inspector General</u>
Substantial changes to the program integrity requirements were included as part of Amendment #2 of the FY2018 Medicaid Managed Specialty Supports and Services Concurrent 1915(b)/(c) Waiver Program contract. New requirements effective for FY2019 include the following:

- Attendance at tri-annual meetings between MDHHS-OIG and all PIHP Compliance Officers to train and discuss fraud, waste and abuse.
- When overpayments involving potential fraud are identified, the PIHP must receive written consent from MDHHS-OIG prior to recovering the overpayment.
- Provide information on program integrity activities performed quarterly to MDHHS-OIG including, but not limited to:
    - Tips/grievances received;
    - Data mining and analysis of paid claims, including audits performed based on the results;
    - Audits performed;
    - Overpayments collected;
    - Identification and investigation of fraud, waste and abuse (as these terms are defined in the “Definitions” section of this contract;
    - Corrective action plans implemented;
    - Provider disenrollments; and
    - Contract terminations

**Contact Information**
As always, questions, comments, and suggestions are welcomed from interested parties and the general public. These can be directed to the Mid-State Health Network Finance Department located at 530 W. Ionia Street, Suite F, Lansing, Michigan 48933.

# BASIC FINANCIAL STATEMENTS

Mid-State Health Network
Statement of Net Position
September 30, 2018

| | Behavioral Health Operating | Medicaid Risk Reserve | Total Proprietary Funds |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents - unrestricted | $ 36,741,074 | $ - | $ 36,741,074 |
| Due from affiliate partners and other agencies | 16,538,874 | - | 16,538,874 |
| Due from MDHHS | 6,860,380 | - | 6,860,380 |
| Due from other funds | - | 11,781,181 | 11,781,181 |
| Prepaid expenses | 78,135 | - | 78,135 |
| Cash and cash equivalents - restricted | - | 24,190,213 | 24,190,213 |
| Investments - restricted | - | 5,574,215 | 5,574,215 |
| Total current assets | 60,218,463 | 41,545,609 | 101,764,072 |
| **Noncurrent assets** | | | |
| Capital asset being depreciated, net | 157,650 | - | 157,650 |
| Total assets | 60,376,113 | 41,545,609 | 101,921,722 |
| **Current liabilities** | | | |
| Accounts payable | 15,403,267 | - | 15,403,267 |
| Accrued payroll and benefits | 148,862 | - | 148,862 |
| Due to affiliate partners | 1,672,669 | - | 1,672,669 |
| Due to State of Michigan | 4,456,521 | - | 4,456,521 |
| Due to other funds | 11,781,181 | - | 11,781,181 |
| Unearned revenue | 22,455,365 | - | 22,455,365 |
| Compensated absences | 238,694 | - | 238,694 |
| Total current liabilities | 56,156,559 | - | 56,156,559 |
| **Net position** | | | |
| Net investment in capital assets | 157,650 | - | 157,650 |
| Restricted for risk management | - | 41,545,609 | 41,545,609 |
| Restricted local - Performance bonus incentive pool | 4,218,616 | - | 4,218,616 |
| Unrestricted | (156,712) | - | (156,712) |
| Total net position | $ 4,219,554 | $ 41,545,609 | $ 45,765,163 |

Mid-State Health Network
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2018

| | Behavioral Health Operating | Medicaid Risk Reserve | Total Proprietary Funds |
|---|---|---|---|
| **Operating revenues** | | | |
| State funding | | | |
| Medicaid capitation | $ 453,863,714 | $ - | $ 453,863,714 |
| Healthy Michigan | 57,994,778 | - | 57,994,778 |
| Autism | 37,499,618 | - | 37,499,618 |
| PA2 revenues | 3,388,090 | - | 3,388,090 |
| DHS incentive | 1,777,498 | - | 1,777,498 |
| Incentive payments | 4,254,834 | - | 4,254,834 |
| Community grant - Substance use disorder | 1,839,111 | - | 1,839,111 |
| Other grant funding | 73,662 | - | 73,662 |
| Total State funding | 560,691,305 | - | 560,691,305 |
| Federal funding - Substance use disorder | | | |
| Community grant | 6,980,775 | - | 6,980,775 |
| Prevention | 2,613,435 | - | 2,613,435 |
| Partnerships for Success 2015-2020 | 145,563 | - | 145,563 |
| Opioid State Targeted Response | 613,223 | - | 613,223 |
| Total Federal funding | 10,352,996 | - | 10,352,996 |
| Contributions - Local match drawdown | 3,934,868 | - | 3,934,868 |
| Other operating revenues | 17,150 | - | 17,150 |
| Total operating revenues | 574,996,319 | - | 574,996,319 |
| **Operating expenses** | | | |
| Contractual obligations | | | |
| Funding for affiliate partners | 485,342,907 | - | 485,342,907 |
| Hospital Rate Adjuster | 8,416,009 | - | 8,416,009 |
| Use and HICA Tax | 5,164,534 | - | 5,164,534 |
| Local match expense | 3,934,868 | - | 3,934,868 |
| Total other contractual obligations | 502,858,318 | - | 502,858,318 |
| Substance use services | | | |
| Prevention | 4,332,813 | - | 4,332,813 |
| Outpatient | 10,788,023 | - | 10,788,023 |
| Recovery Support | 3,000,175 | - | 3,000,175 |
| Medication-Assisted Treatment | 5,025,566 | - | 5,025,566 |
| Detox | 2,654,337 | - | 2,654,337 |
| Residential | 10,322,819 | - | 10,322,819 |
| Women's Specialty | 5,001,550 | - | 5,001,550 |
| Other contractual agreements | 1,976,411 | - | 1,976,411 |
| Total substance use services | 43,101,694 | - | 43,101,694 |
| Administrative expense | | | |
| Board per diem | 28,350 | - | 28,350 |
| Depreciation expense | 31,530 | - | 31,530 |
| Dues and memberships | 5,354 | - | 5,354 |
| Insurance | 22,777 | - | 22,777 |
| Professional contracts | 1,162,427 | - | 1,162,427 |
| Rent and utilities | 76,074 | - | 76,074 |
| Salaries and fringes | 4,003,498 | - | 4,003,498 |
| Software maintenance | 706,690 | - | 706,690 |
| Supplies | 251,116 | - | 251,116 |
| Travel and training | 124,580 | - | 124,580 |
| Total administrative expense | 6,412,396 | - | 6,412,396 |

Mid-State Health Network
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2018

| | Behavioral Health Operating | Medicaid Risk Reserve | Total Proprietary Funds |
|---|---|---|---|
| Total operating expenses | $ 552,372,408 | $ - | $ 552,372,408 |
| Operating income (loss) | 22,623,911 | - | 22,623,911 |
| **Non-operating revenues (expenses)** | | | |
| Investment income | 7 | 104,979 | 104,986 |
| Non-operating income (loss) | 7 | 104,979 | 104,986 |
| **Income before transfers** | 22,623,918 | 104,979 | 22,728,897 |
| **Transfers in (out) - Medicaid** | (21,881,181) | 21,881,181 | - |
| **Change in net position** | 742,737 | 21,986,160 | 22,728,897 |
| **Net position, beginning of year** | 3,476,817 | 19,559,449 | 23,036,266 |
| **Net position, end of year** | $ 4,219,554 | $ 41,545,609 | $ 45,765,163 |

Mid-State Health Network
Statement of Cash Flows
For the Year Ended September 30, 2018

| | Behavioral Health Operating | Medicaid Risk Reserve | Total Proprietary Funds |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from the State and other governments | $ 573,453,685 | $ - | $ 573,453,685 |
| Payments to employees | (3,949,219) | - | (3,949,219) |
| Payments to affiliates and other governments | (506,797,273) | - | (506,797,273) |
| Payments to providers and suppliers | (38,762,516) | - | (38,762,516) |
| Net cash provided by (used in) operating activities | 23,944,677 | - | 23,944,677 |
| **Cash flows from noncapital financing activities** | | | |
| Transfers (to)/from other funds | (10,100,000) | 10,100,000 | - |
| Net cash provided by (used in) noncapital fin. activities | (10,100,000) | 10,100,000 | - |
| **Cash flows from capital activities** | | | |
| Purchase of capital assets | (52,550) | - | (52,550) |
| Net cash provided by (used in) capital activities | (52,550) | - | (52,550) |
| **Cash flows from investment activities** | | | |
| Investment income | 7 | 104,979 | 104,986 |
| Sale (purchase) of investments | - | 2,051,147 | 2,051,147 |
| Net cash provided by (used in) investment activities | 7 | 2,156,126 | 2,156,133 |
| **Net increase in cash and cash equivalents** | 13,792,134 | 12,256,126 | 26,048,260 |
| **Cash and cash equivalents, beginning of year** | 22,948,940 | 11,934,087 | 34,883,027 |
| **Cash and cash equivalents, end of year** | $ 36,741,074 | $ 24,190,213 | $ 60,931,287 |
| Reconciliation of operating income to net cash provided by (used for) operating activities: | | | |
| Operating income (loss) | $ 22,623,911 | $ - | $ 22,623,911 |
| Changes in assets and liabilities: | | | |
| Due from other governmental units | 101,945 | - | 101,945 |
| Prepaid expenses | (54,592) | - | (54,592) |
| Accounts payable | 6,802,668 | - | 6,802,668 |
| Accrued payroll and benefits | 3,581 | - | 3,581 |
| Due to other governments units | (3,938,955) | - | (3,938,955) |
| Unearned revenue | (1,644,579) | - | (1,644,579) |
| Compensated absences | 50,698 | - | 50,698 |
| Net cash provided by (used in) operating activities | $ 23,944,677 | $ - | $ 23,944,677 |

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mid-State Health Network (the Entity) was formed by the Community Mental Health Services Providers (CMHSP) participants to serve as the prepaid inpatient health plan ("PIHP") for the twenty-one counties designated by the Michigan Department of Health and Human Services as Region 5. The CMHSP participants include Bay-Arenac Behavioral Health, Clinton-Eaton-Ingham Community Mental Health Authority, Community Mental Health for Central Michigan, Gratiot Community Mental Health Authority, Tuscola Community Mental Health Authority, Huron County Community Mental Health Authority, Ionia County Community Mental Health Authority, LifeWays Community Mental Health Authority, Montcalm County Community Mental Health Authority, Newaygo County Community Mental Health Authority, Saginaw County Community Mental Health Authority, and Shiawassee County Community Mental Health Authority.

Mid-State Health Network is a regional entity, which was formed pursuant to 1974 P.A. 258, as amended, MCL §330.1204b, as a public governmental entity separate from the Entity Participants that established it.

### Financial Statement Presentation

Under GASB 34, the Entity is considered a special purpose government and has elected to present the basic statements 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 principal operating revenues of the Entity are charges related to serving its customers (including primarily "per member per month" capitation and state and county appropriations). Operating expenses for the Entity 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.

As a general rule, the effect of interfund activity has been eliminated when presenting total proprietary fund activity. All amounts shown are in U.S. dollars.

### Fund Accounting

The accounts of the Entity are organized on the basis of funds, each of which is considered 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 Entity reports the following major enterprise fund:

*Behavioral Health Operating* – This fund is used to account for those activities that are financed and operated in a manner similar to private business relating to revenues earned, costs incurred, and/or net income. This fund of the Entity accounts for its general operations.

In addition, the Entity reports the following major internal service fund:

*Medicaid Risk Reserve* – This fund is used to cover the risk of overspending the Medicaid Managed Care Specialty Services Program Contract within the established risk corridor. This contract provides for the use of Department of Health and Human Services funding for the establishment of Internal Service Funds. Expenses from this fund will occur when, in any one fiscal year, the Entity finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

### Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. The proprietary funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The proprietary funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities associated with their activity are included on the statement of net position.

**Estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

**Cash and Cash Equivalents**
The Entity's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits, and certificates of deposit.

**Investments**
Investments for the Entity are reported at fair value (generally based on quoted market prices).

**Accounts Receivable/Payable**
Accounts receivable/payable in all funds report amounts that have arisen in the ordinary course of business. Accounts receivable is stated net of allowances for uncollectible amounts, if any.

**Due from/Due to Other Governmental Units**
Due from/due to other governmental units consist primarily of amounts due from/to the Entity Participants and the State of Michigan.

**Inventories**
The Entity does not recognize supplies inventory as an asset. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Prepaid Expenses**
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

**Capital Assets**
Capital assets are defined by the Entity as individual assets with an initial cost equal to or more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

| Assets | Years |
|---|---|
| Computers and Software | 3 |

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

**Accrued Payroll and Benefits**
Accrued payroll and benefits relate to salaries and wages earned in September but not paid until October.

**Unearned Revenue**
The Entity reports unearned revenue when revenue does not meet either the "measurable" and "available" criteria for recognition in the current period, or when resources are received by the Entity 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 Entity has legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

**Compensated Absences**
The Entity's policy permits employees to accumulate earned but unused vacation and sick benefits, which are eligible for payment upon separation from the Entity's service. The liability for such leave is reported as incurred in the financial statements. The liability for compensated absences includes salary related benefits, where applicable.

**Deferred Outflows/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(s) and so will not be recognized as an outflow of resources (expense) until then. The Entity has no items that qualify for reporting in this category.

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 Entity has no items that qualify for reporting in this category.

**Net Position**
<u>Net investment in capital assets</u>
This category consists of capital asset balances, net of accumulated depreciation, less outstanding balances of debt related to those assets.

<u>Restricted</u>
Net position in this category is reported as restricted when constraints placed on net position use is either:
- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

<u>Unrestricted</u>
If net position does not meet the criteria for the above categories, it is reported as unrestricted.

In addition, the Entity will first use restricted resources when an expense is incurred for purposes for which either restricted or unrestricted net position is available.

**Restrictions on Net Position**
<u>Behavioral Health Operating</u>
A portion of the net position has been restricted in the Behavioral Health Operating fund in accordance the requirements of the Performance Bonus Incentive Pool (PBIP). These PBIP funds must be used for the benefit of the public behavioral health system. As of September 30th, the amount of this restriction was $4,218,616.

<u>Internal Service Fund</u>
A portion of the net position has been restricted in the internal service fund to fund the net uninsured exposure of potential shortfalls of contract revenues. As of September 30th, this amount was $35,653,996 for Medicaid risk management and $5,891,612 for Healthy Michigan risk management.

**Internal Service Fund**
The Entity authorized the establishment of an internal service fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program Contract within the established risk corridor. This contract provides for the use of Department of Health and Human Services funding for the establishment of Internal Service Funds.

Expenses from this fund will occur when, in any one fiscal year, the Entity finds it necessary to expend more to provide services to carry out the contract requirements than revenue provided by the contract.

**MDHHS Revenue**
The Entity serves as the PIHP for the area that includes Arenac, Bay, Clare, Clinton, Eaton, Gladwin, Gratiot, Hillsdale, Huron, Ingham, Ionia, Isabella, Jackson, Mecosta, Midland, Montcalm, Newaygo, Osceola, Saginaw,

Shiawassee, and Tuscola Counties. The Entity contracts directly with the MDHHS to administer mental health and substance abuse revenues for covered services provided to eligible residents of these counties.

**NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

**Cash and Cash Equivalents**
Michigan's statutory authority allows governmental entities to invest in the following investments:
- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investments Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

At September 30th the carrying amount of the Entity's cash and cash equivalents are as follows:

| Description | Amount |
|---|---|
| Checking, Money Market, & Liquid Asset Accounts – Unrestricted | 36,741,074 |

**Cash and Cash Equivalents - Restricted**
Cash and cash equivalents have been restricted in the Internal Service Fund for the expected future risk corridor requirements of the MDHHS contract.

| Description | Amount |
|---|---|
| Checking, Money Market, & Liquid Asset Accounts – Restricted for ISF | 24,190,213 |

**Interest Rate Risk**
State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Entity's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**
State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the summary of significant accounting policies. The Entity's investment policy does not have specific limits in excess of state law on investment credit. The ratings for each investment are identified above for investments held at year-end.

**Custodial Credit Risk**
Custodial credit risk is the risk that in the event of a bank failure, the Entity's deposits may not be returned. State law does not require and the Entity does not have a policy for deposit custodial credit risk. As of year-end $60,812,081 of the Entity's bank balance of $61,062,081 was exposed to custodial credit risk because it was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The Entity believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Entity evaluates each financial institution with which it deposits funds and assesses the level of risk at each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

**Concentration of Credit Risk**

State law limits allowable investments but does not limit concentration of credit risk as identified in the summary of significant accounting policies. The Entity's investment policy does not have specific limits in excess of state law on concentration of credit risk.

**Investments - Restricted**
As of September 30th, the Entity had the following restricted investments:

| Investments - restricted | Amount |
|---|---|
| U.S. agencies | 4,944,908 |
| Municipal bonds | 625,577 |
| Long-term accrued interest on investments | 3,730 |
| Total | 5,574,215 |

| Investment Type | Moody's Rating | Amount |
|---|---|---|
| U.S. agencies: | | |
| United States Treasury | N/A | 986,553 |
| United States Treasury | N/A | 1,982,906 |
| United States Treasury | N/A | 978,049 |
| United States Treasury | N/A | 997,400 |
| Total U.S. agencies: | | 4,944,908 |
| | | |
| Municipal bonds: | | |
| North Branch Mich Area Schools | AA1 | 625,577 |
| Total municipal bonds: | | 625,577 |

**Investments**
State statutes authorize the Entity to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. See above for a listing of the Entity's investments. The Entity's investment policy complies with the state statutes and has no additional investment policies that would limit its investment choices.

**Interest Rate Risk – Investments**
Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Entity's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Investments – Restricted**

| Years | 1 - 5 | 6 - 10 | 11 - 15 | Total |
|---|---|---|---|---|
| U.S. Agencies | 4,944,908 | - | - | 4,944,908 |
| Municipal Bonds | 625,577 | - | - | 625,577 |
| Total | 5,570,485 | - | - | 5,570,485 |

**Custodial Credit Risk – Investments**
Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Entity will not be able to recover the value of its investments that are in the possession of an outside party. The Entity requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Entity does not have any additional policies for custodial credit risk over investments.

**Credit Risk - Investments**
State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Entity's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

**Concentration of Credit Risk - Investments**
The Entity's investment policy places no limit on the amount it may invest in any one issuer. At September 30$^{th}$, concentrations in securities of any one issuer greater than 5% of investment fair value were as follows:

| Investment Type | Issuer | % of Portfolio |
|---|---|---|
| U.S. Treasuries | United States Treasury | 88.77% |
| Municipal Bonds | North Branch Mich Area Schools | 11.23% |

**Fair Value of Investments**
The Entity measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At year-end, the Entity had the following recurring fair value measurements.

| | Value as of | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Description | Sept 30$^{th}$ | Level 1 | Level 2 | Level 3 |
| Debt Securities | | | | |
| U.S. Agencies | 4,944,908 | 4,944,908 | - | - |
| Municipal/Public Bonds | 625,577 | 625,577 | - | - |
| Total debt securities | 5,570,485 | 5,570,485 | - | - |

## NOTE 3 - DUE FROM AFFILIATE PARTNERS AND OTHER AGENCIES

Due from affiliate partners and other agencies as of September 30th consists of the following:

| Description | Amount |
|---|---|
| Bay-Arenac Behavioral Health | 73,548 |
| CMHA of Clinton, Eaton, & Ingham Counties | 5,702,604 |
| Community Mental Health for Central Michigan | 908,759 |
| Ionia County Community Mental Health | 896,831 |
| LifeWays Community Mental Health Authority | 2,775,380 |
| Montcalm Center for Behavioral Health | 1,682,799 |
| Newaygo County Mental Health | 1,108,928 |
| Saginaw County Community Mental Health Authority | 6,650 |
| Shiawassee County Community Mental Health Authority | 464,736 |
| Tuscola Behavioral Health Systems | 988,488 |
| Due from Counties | 1,784,677 |
| Other | 145,474 |
| Total | 16,538,874 |

## NOTE 4 - DUE FROM MDHHS

Due from MDHHS as of September 30th consists of the following:

| Description | Amount |
|---|---|
| Habilitation Supports Waiver | 938,258 |
| DHHS Incentive Payments | 909,664 |
| Autism | 469 |
| FY2018 Withhold Payments | 5,011,989 |
| Total | 6,860,380 |

**NOTE 5 - CAPITAL ASSETS**

A summary of changes in capital assets is as follows:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Construction in process | 105,100 | - | (105,100) | - |
| Total capital assets not being depreciated | 105,100 | - | (105,100) | - |
| | | | | |
| Capital assets being depreciated | | | | |
| Computers and software | - | 189,180 | - | 189,180 |
| Total capital assets being depreciated | - | 189,180 | - | 189,180 |
| | | | | |
| Accumulated depreciation | | | | |
| Computers and software | - | (31,530) | - | (31,530) |
| Total accumulated depreciation | - | (31,530) | - | (31,530) |
| | | | | |
| Net capital assets being depreciated | - | 157,650 | - | 157,650 |
| Net capital assets | 105,100 | 157,650 | (105,100) | 157,650 |

**NOTE 6 - DUE TO AFFILIATE PARTNERS**

Due to affiliate partners as of September 30th consists of the following:

| Description | Amount |
|---|---|
| Gratiot County Community Mental Health | 363,339 |
| Huron Behavioral Health | 238,713 |
| Saginaw County Community Mental Health Authority | 1,070,617 |
| Total | 1,672,669 |

**NOTE 7 - DUE TO STATE OF MICHIGAN**

Due to State of Michigan as of September 30th consists of the following:

| Description | Amount |
|---|---|
| HICA Tax | 2,170,785 |
| Other | 2,285,736 |
| Total | 4,456,521 |

## NOTE 8 - UNEARNED REVENUE

The amount reported as unearned revenue represents revenues received in advance of the period earned as follows:

| Description | Amount |
|---|---|
| Medicaid Savings Carryforward | 7,778,905 |
| PA2 Carryforward | 13,382,975 |
| MDHHS Contract Withhold | 793,373 |
| Medicaid Savings Carryforward - Prior Year | 500,112 |
| Total | 22,455,365 |

## NOTE 9 - NET INVESTMENT IN CAPITAL ASSETS

As of September 30th, the composition of net investment in capital assets was comprised of the following:

| Net investment in capital assets | Amount |
|---|---|
| Capital assets being depreciated, net | 157,650 |
| Net investment in capital assets | 157,650 |

## NOTE 10 – RETIREMENT AND OTHER POST EMPLOYMENT BENEFIT PLANS

### Defined Contribution Retirement Plan – 401(a)

Plan Description

The Entity offers all employees a retirement plan created in accordance with the Internal Revenue Code, Section 401(a). The assets of the plan were held in trust for the exclusive benefit of the participants (employees) and their beneficiaries. MERS acts as the custodian for the plan and holds the custodial account for the beneficiaries of this Section 401(a) plan.

The assets may not be diverted to any other use. MERS are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. Plan balances and activities are not reflected in the Entity's financial statements.

Plan provisions are established or amended by Board resolution. This plan is funded by both employer and employee contributions.

Eligibility

All full time employees are eligible (excluding leased, independent contractors and part time employees).

Contributions

The Entity contributes 10% of the employee's compensation (defined as W2 wages) regardless of the employee contribution.

Normal Retirement Age & Vesting

Retirement age as defined by the plan is 60 years of age. Contributions are 100% vested immediately.

Forfeitures

Contributions are 100% vested immediately therefore there are no forfeitures of contributions.

Funding

For the year ended September 30th, employer contributions amounted to $283,085 and employee contributions amounted to $105,351. The outstanding liability to the plan at year-end was $3,424.

**Deferred Compensation Retirement Plan – 457(b)**

Plan Description

The Entity offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan were held in trust, as described in IRC Section 457(b) for the exclusive benefit of the participants (employees) and their beneficiaries. MERS acts as the custodian for the plan and holds the custodial account for the beneficiaries of this plan.

The assets may not be diverted to any other use. MERS are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Entity's financial statements.

Plan provisions are established or amended by Board resolution. Under the plan, employees may elect to defer a portion of their wages, subject to Internal Revenue Service limits. This plan is funded solely by employee contributions.

Eligibility

All full time employees are eligible (excluding leased, independent contractors and part time employees).

Contributions

Pre-tax employee deferrals and catch up contributions are allowed (up to maximum allowed by law). Contributions are deposited every payroll period. Rollovers are allowed from all participants.

Normal Retirement Age & Vesting

Retirement age as defined by the plan is 60 years of age. All contributions are 100% vested immediately.

Forfeitures

Contributions are 100% vested immediately therefore there are no forfeitures.

Funding

For the year ended September 30th, contributions by employees amounted to $113,458. The outstanding liability to the plan at year-end was $0.

**Defined Contribution Retirement Plan – Social Security Alternative**

Plan Description

The Entity offers all employees a retirement plan created pursuant with the Internal Revenue Code. The assets of the plan were held in trust for the exclusive benefit of the participants (employees) and their beneficiaries. MERS acts as the custodian for the plan and holds the custodial account for the beneficiaries of this plan.

The assets may not be diverted to any other use. The MERS are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. Plan balances and activities are not reflected in the Entity's financial statements. Plan provisions are established or amended by Board resolution.

Eligibility

All employees are eligible.

Contributions

Employees contribute a mandatory 1.3% of their wages to this plan. The Entity contributes 6.2% of employee wages to the plan.

Normal Retirement Age & Vesting

Normal retirement age as defined by the plan is 60 years of age.

Forfeitures

Contributions are 100% vested immediately therefore there are no forfeitures.

Funding
For the year ended September 30th, employer contributions amounted to $172,734 and employee contributions amounted to $40,768. The outstanding liability to the plan at year-end was $4,116.

**Health Care Savings Program**
Plan Description
The Health Care Savings Program (defined contribution OPEB) is for eligible full time employees that have opted out of the Entity's health care coverage. In consideration for opting out of health care coverage, the Entity provides certain benefits to this covered employee group as noted below. The plan is administered by MERS.

Eligibility
Full time employees that have opted out of the Entity's health care coverage

Contributions
The Entity makes the following employer contributions to each eligible Plan participant's account: 30% of a single person premium on a bi-weekly basis. The employee contributes to the plan as follows: 1% of the employee's compensation on a pre-tax basis.

Vesting
All contributions are 100% vested immediately.

Forfeitures
Contributions are 100% vested immediately therefore there are no forfeitures.

Funding
For the year ended September 30th, employer contributions amounted to $6,371 and employee contributions amounted to $2,116. The outstanding liability to the plan at year-end was $0.

**NOTE 11 - OPERATING LEASES**

The Entity has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements. Lease expense for the fiscal year was approximately $68,931.

The future minimum lease obligations as of September 30th, were as follows:

| Year Ending September 30th | Amount |
|---|---|
| 2019 | 69,852 |

**NOTE 12 - RISK MANAGEMENT**

MMRMA
The Entity is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Entity participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Entity is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Entity's limits, all further payments for such loss are the sole obligation of the Entity. If for any reason MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Entity is the sole obligation of the Entity. Settled claims have not exceeded the amount of coverage in any of the past three years.

The Entity's coverage limits are $10,000,000 for general liability, $10,000,000 for public officials' liability, and approximately $200,000 for personal property.

Medicaid Risk Reserve
The regional entity covers the costs up to 105% of the annual Medicaid and Healthy Michigan contract. The entity and MDHHS equally share the costs between 105% to 110% of the contract amounts. Costs in excess of 110% of the contract are covered entirely by MDHHS.

The regional entity has established a Medicaid Risk Reserve Fund, in accordance with Michigan Department of Health and Human Services guidelines, to assist in managing any potential operating shortfalls (as noted above) under the terms of its contract with the MDHHS.

## NOTE 13 – CONTINGENT LIABILITIES

Under the terms of various federal and state grants and regulatory requirements, the Entity is subject to periodic audits of its agreements, as well as a cost settlement process under the full management contract with the State of Michigan. Such audits could lead to questioned costs and/or requests for reimbursement to the grantor or regulatory agencies. Cost settlement adjustments, if any, as a result of compliance audits are recorded in the year that the settlement is finalized. The amount of expenses which may be disallowed, if any, cannot be determined at this time, although the Entity expects such amounts, if any, to be immaterial.

## NOTE 14 – ECONOMIC DEPENDENCE

The Entity receives over 90% of its revenues from the State of Michigan directly from MDHHS.

RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

**Mid-State Health Network**
**Financial Statements**
**September 30, 2018**