BASIC FINANCIAL STATEMENTS

Lakeshore Regional Entity
Statement of Net Position
September 30, 2020

	Mental Health Operating	Medicaid Risk Reserve	Public Act 2 Fund	Total Proprietary Funds
Current assets				
Cash and cash equivalents	$ 31,460,282	$ -	$ 2,499,809	$ 33,960,091
Due from affiliates	40,063,979	-	4,623,258	44,687,237
Due from MDHHS	13,369,049	-	-	13,369,049
Due from others	100	-	1,530,879	1,530,979
Due from other funds	-	2,420,925	2,877,322	5,298,247
Prepaid expenses	97,384	-	-	97,384
Total current assets	84,990,794	2,420,925	11,531,268	98,942,987
Noncurrent assets				
Capital assets - depreciable, net	-	-	-	-
Total assets	84,990,794	2,420,925	11,531,268	98,942,987
Liabilities				
Accounts payable	3,379,133	-	481,673	3,860,806
Accrued payroll and benefits	39,657	-	-	39,657
Due to affiliate	79,139,530	-	659,822	79,799,352
Due to MDHHS	6,095,887	-	-	6,095,887
Due to other funds	5,298,247	-	-	5,298,247
Unearned revenue	10,111,699	-	-	10,111,699
Compensated absences	192,424	-	-	192,424
Total liabilities	104,256,577	-	1,141,495	105,398,072
Net position				
Net investment in capital assets	-	-	-	-
Restricted	-	2,420,925	10,389,773	12,810,698
Unrestricted	(19,265,783)	-	-	(19,265,783)
Total net position	$ (19,265,783)	$ 2,420,925	$ 10,389,773	$ (6,455,085)

The notes to the financial statements are an integral part of this statement.

Lakeshore Regional Entity
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2020

	Mental Health Operating	Medicaid Risk Reserve	Public Act 2 Fund	Total Proprietary Funds
Operating revenues				
State funding				
Medicaid	$ 280,861,126	$ -	$ -	$ 280,861,126
Healthy Michigan	39,322,080	-	-	39,322,080
Incentive payments	3,552,797	-	-	3,552,797
PA2 revenues	-	-	3,062,555	3,062,555
Substance use - State portion	1,989,261	-	-	1,989,261
Total State funding	325,725,264	-	3,062,555	328,787,819
Federal funding				
Substance use - Community grant	3,942,016	-	-	3,942,016
Substance use - Prevention	2,122,253	-	-	2,122,253
Substance use - SUD Tobacco Related Prevention	3,816	-	-	3,816
Substance use - Opiod Target Response	375,135	-	-	375,135
Substance use - State Opioid Response Grant	1,107,165			1,107,165
Substance use - Partnership for Success II	334,968	-	-	334,968
MI Youth Treatment Improvement & Enhancement	31,394	-	-	31,394
Block grants	143,445	-	-	143,445
Total Federal funding	8,060,192	-	-	8,060,192
Contributions - Local match drawdown	2,040,096	-	-	2,040,096
Total operating revenues	335,825,552	-	3,062,555	338,888,107
Operating expenses				
Funding for affiliate partners				
Medicaid	253,929,874	-	-	253,929,874
Healthy MI	37,061,827	-	-	37,061,827
SUD Block Grant	7,323,712	-	-	7,323,712
PA2 Liquor Tax	-	-	297,444	297,444
Total funding for affiliate partners	298,315,413	-	297,444	298,612,857
Other contractual obligations				
Contracted services - Prevention	2,427,471	-	706,376	3,133,847
Hospital Rate Adjuster	9,223,979	-	-	9,223,979
Local match expense	2,040,096	-	-	2,040,096
IPA assessment	3,676,696	-	-	3,676,696
Total other contractual obligations	17,368,242	-	706,376	18,074,618
Administrative expenses				
Board per diem	13,150	-	-	13,150
Capital outlay - under $5,000	31,280	-	-	31,280
Depreciation expense	35,700	-	-	35,700
Dues and memberships	9,966	-	-	9,966
Insurance	18,148	-	-	18,148
Legal and accounting	168,476	-	-	168,476
Meeting expense	8,688	-	-	8,688
Professional contracts	11,323,878	-	-	11,323,878
Rent	36,447	-	-	36,447
Salaries and fringes	1,093,475	-	-	1,093,475
Supplies	10,934	-	-	10,934
Travel and training	25,596	-	-	25,596
Utilities	29,732	-	-	29,732
All other costs	4,396	-	-	4,396
Total administrative expense	12,809,866	-	-	12,809,866
Total operating expenses	328,493,521	-	1,003,820	329,497,341
Operating income (loss)	7,332,031	-	2,058,735	9,390,766

Lakeshore Regional Entity
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2020

	Mental Health Operating	Medicaid Risk Reserve	Public Act 2 Fund	Total Proprietary Funds
Non-operating revenues (expenses)				
Interest income	$ 13,337	$ -	$ 178	$ 13,515
Total non-operating revenues (expenses)	13,337	-	178	13,515
Transfer in (out)				
Transfer in	-	2,420,925	-	2,420,925
Transfer (out)	(2,420,925)	-	-	(2,420,925)
Total transfer in (out)	(2,420,925)	2,420,925	-	-
Change in net position	4,924,443	2,420,925	2,058,913	9,404,281
Net position, beginning of year	(24,884,178)	-	-	(24,884,178)
Restatement	693,952	-	8,330,860	9,024,812
Net position, end of year	$ (19,265,783)	$ 2,420,925	$ 10,389,773	$ (6,455,085)

Lakeshore Regional Entity
Statement of Cash Flows
For the Year Ended September 30, 2020

	Mental Health Operating	Medicaid Risk Reserve	Public Act 2 Fund	Total Proprietary Funds
Cash flows from operating activities				
Receipts from the State and other governments	$ 354,236,424	$ -	$ 5,899,100	$ 360,135,524
Payments to employees	(1,078,728)	-	-	(1,078,728)
Payments to affiliates and other governments	(327,142,424)	-	-	(327,142,424)
Payments to suppliers and providers	(11,503,217)	-	(522,147)	(12,025,364)
Net cash provided (used) by operating activities	14,512,055	-	5,376,953	19,889,008
Cash flows from noncapital financing activities				
Transfers from other funds	2,877,322	-	(2,877,322)	-
Net cash provided (used) by noncapital fin. activities	2,877,322	-	(2,877,322)	-
Cash flows from investment activities				
Interest income	13,337	-	178	13,515
Net cash provided (used) by investment activities	13,337	-	178	13,515
Net increase in cash and cash equivalents	17,402,714	-	2,499,809	19,902,523
Cash and cash equivalents, beginning of year	14,057,568	-	-	14,057,568
Cash and cash equivalents, end of year	$ 31,460,282	$ -	$ 2,499,809	$ 33,960,091
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income (loss)	$ 7,332,031	$ -	$ 2,058,735	$ 9,390,766
Depreciation expense	35,700	-	-	35,700
Changes in assets and liabilities:				
Accounts receivable	1,138,680	-	-	1,138,680
Due from other governmental units	(15,223,898)	-	(6,154,137)	(21,378,035)
Prepaid expenses	(77,160)	-	-	(77,160)
Accounts payable	254,634	-	481,673	736,307
Accrued payroll and benefits	(1,411)	-	-	(1,411)
Due to other governmental units	19,426,592	-	659,822	20,086,414
Unearned revenue	1,610,729	-	8,330,860	9,941,589
Compensated absences	16,158	-	-	16,158
Net cash provided (used) by operating activities	$ 14,512,055	$ -	$ 5,376,953	$ 19,889,008

The notes to the financial statements are an integral part of this statement.

NOTES TO THE
FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lakeshore Regional Entity (the Entity) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Entity.

Reporting Entity
Lakeshore Regional Entity was formed by the Community Mental Health Service Programs (CMHSP) Participants to serve as the prepaid inpatient health plan ("PIHP") for the seven counties designated by the Michigan Department of Community Health as Region 3. The CMHSP Participants include Allegan County Community Mental Health, HealthWest (Formerly Muskegon County Community Mental Health), Network180, Ottawa Community Mental Health, and West Michigan Community Mental Health System.

Lakeshore Regional Entity 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:

Mental 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.

Public Act 2 – This fund is used to account for PA2 funds received by the Entity from Michigan Department of Treasury. These funds are to be used for the purpose of providing substance abuse prevention and treatment programs.

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 Michigan 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. Revenues are recognized when they are earned, and 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.

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 value 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
Leasehold Improvement	Remaining Lease Term
Computers and Software	3
Vehicles	4

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.

<u>Restrictions on Net Position</u>
Medicaid Risk Reserve
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 Michigan Department of Health and Human Services (MDHHS) 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.

Public Act 2
These funds are to be used for the purpose of providing substance abuse prevention and treatment programs PA2 Funding is provided to the Entity through the Counties by the Michigan Department of Treasury. Funds are to be used for SUD prevention and treatment services in the county that received the funds from Treasury

MDHHS Revenue
The Entity serves as the Pre-Paid Inpatient Health Plan for the area that includes Allegan, Kent, Lake, Mason, Muskegon, Oceana and Ottawa 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 AND CASH EQUIVALENTS

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	33,960,091

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 $33,725,707 of the Entity's bank balance of $33,975,707 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.

NOTE 3 – ACCOUNTS RECEIVABLE

The Entity believes that the accounts receivable will be collected in full and therefore the receivable balance has not been offset by an allowance for doubtful accounts.

NOTE 4 - DUE FROM AFFILIATES

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

Description	Amount
Allegan County Community Mental Health	4,588,393
HealthWest	6,491,412
Network180	23,645,629
Ottawa Community Mental Health	6,759,983
West Michigan Community Mental Health Systems	3,201,820
Total	44,687,237

NOTE 5 - DUE FROM MDHHS

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

Description	Amount
Performance Bonus Incentive	2,332,145
FY18 MDHHS Risk Portion	1,360,996
FY19 MDHHS Risk Portion	2,936,485
Retro payments	3,101,345
Block grant	2,184,934
HRA	1,453,144
Total	13,369,049

NOTE 6 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

Description	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets being depreciated					
Leasehold improvement	9,500	-	-	-	9,500
Computers and software	159,525	-	-	-	159,525
Vehicles	31,485	-	-	-	31,485
Total capital assets being depreciated	200,510	-	-	-	200,510
Accumulated depreciation					
Leasehold improvement	(9,500)	-	-	-	(9,500)
Computers and software	(123,825)	(35,700)	-	-	(159,525)
Vehicles	(31,485)	-	-	-	(31,485)
Total accumulated depreciation	(164,810)	(35,700)	-	-	(200,510)
Net capital assets being depreciated	35,700	(35,700)	-	-	-
Net capital assets	35,700	(35,700)	-	-	-

NOTE 7 - DUE TO AFFILIATES

Due to affiliates as of September 30th consists of the following:

Description	Amount
Allegan County Community Mental Health	1,965,922
HealthWest	24,235,327
Network180	40,588,149
Ottawa Community Mental Health	8,783,242
West Michigan Community Mental Health	3,306,785
Beacon Health Options	919,927
Total	79,799,352

NOTE 8 - DUE TO MDHHS

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

Description	Amount
Taxes Payable	910,451
Block Grant	656,844
Direct Care Wages Lapse	4,525,164
Other	3,428
Total	6,095,887

NOTE 9 - UNEARNED REVENUE

Unearned revenue as of September 30th consists of the following:

Description	Amount
Medicaid Savings	10,081,642
Other unearned revenues	30,057
Total	10,111,699

NOTE 10 - LONG-TERM LIABILITIES

Changes in the long-term liabilities are as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Compensated absences	176,266	42,598	(26,440)	192,424	192,424

NOTE 11 - NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets as of September 30th consists of the following:

Net investment in capital assets	Amount
Capital asset being depreciated	200,510
Accumulated depreciation	(200,510)
Total	-

NOTE 12 – 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. ICMA 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. The ICMA 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.

Contributions

Contributions in lieu of Social Security: The Entity contributes 5% of the employee's compensation in lieu of Social Security. Employees are required to contribute 6% of compensation.

Contributions to retirement plan: The Entity contributes 10% of the employee's compensation regardless of the employee contribution. If the employee irrevocably elects to contribute 2% of compensation, the Entity will match the employee's contribution with an additional 2%.

Normal Retirement Age & Vesting

Retirement age as defined by the plan is 62 years of age. Contributions are 100% vested after one year of employment.

Forfeitures

Forfeitures of employer contributions (due to the employee not having obtained one year of employment) are used to offset future employer contributions.

For the year ended September 30th, employer contributions (reduced by $0 in forfeitures) amounted to $134,685 and employee contributions amounts to $62,744. The outstanding liability to the plan at year-end was $4,861.

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. ICMA 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. ICMA 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. 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.

Contributions
Pre-tax employee deferrals and catch up contributions are allowed (up to maximum allowed by law).

Normal Retirement Age & Vesting
Retirement age as defined by the plan is 62 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 $13,653. The outstanding liability to the plan at year-end was $526.

Defined Contribution Retirement Plan – IRA
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. ICMA 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 Administrators 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 solely by employee contributions.

Eligibility
All employees are eligible.

Contributions
Pre-tax employee deferrals and catch up contributions are allowed (up to maximum allowed by law).

Normal Retirement Age & Vesting
Normal retirement age as defined by the plan is 62 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 $6,153. The outstanding liability to the plan at year-end was $237.

NOTE 13 - 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 $30,675.

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

Year Ending September 30th	Amount
2021	31,595
2022	7,957

NOTE 14 - 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 liability, $1,500,000 for vehicle physical damage, and approximately $1,030,300 for buildings and personal property.

Medicaid Risk Reserve

The 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 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 15 – 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. 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 16 – ECONOMIC DEPENDENCE

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

NOTE 17 – TRANSFERS

The Mental Health Operating Fund transferred $2,420,925 to the Medicaid Risk Reserve Fund during the year for the purpose of covering the risk of future overspending of the Medicaid Managed Care Specialty Services Program Contract.

NOTE 18 – RESTATEMENT

The restatement in these financial statements consists of the following items:

Description	Amount
Affiliate cost settlement adjustments	(372,955)
Risk share adjustment	1,070,208
Withhold adjustment	(3,301)
Total Mental Health Operating Restatement	693,952

Description	Amount
Recognize PA2 revenue that is no longer deferred due to creation of new fund	8,330,860
Total Public Act 2 Restatement	8,330,860

NOTE 19 – GOING CONCERN

As of the financial statement date, the Entity has a deficit net position of $(19,265,783) in its Mental Health Operating Fund. The Entity liquidated the remaining funds in its Medicaid Risk Reserve (ISF) during FY17. During FY18, the Entity received a supplemental legislative appropriation of $3,500,000 to assist with risk management however the FY18 losses far exceeded this supplemental. The deficits continued in FY19 and the Entity did not have any remaining ISF reserves (nor did it receive any additional supplemental legislative appropriations) to offset the FY19 Operating Fund deficit. These historical deficits have contributed to the FY20 beginning net position of $(24,884,178) in the Mental Health Operating Fund. During FY20, the Entity was able to increase net position in the Mental Health Operating Fund by $4,924,443.

As of the date of the opinion, there is evidence to show that the Entity will be unable to continue to meet its obligations as they become due within 12 months from the financial statement date. The Entity has incurred substantial annual deficits in the preceding fiscal years which raises substantial doubt about its ability to continue as a going concern.

Mitigating factors that could play a role in the Entity's ability to continue as a going concern include 1) a favorable settlement to the contract dispute with MDHHS (see note 20) and 2) continued improvements and changes to the revenue allocation methodology as was experienced in FY20.

NOTE 20 – SUBSEQUENT EVENTS

In July 2019, MDHHS sent a formal notice to the Entity that MDHHS would be cancelling the Specialty Prepaid Inpatient Health Plan contract with the Entity effective September 30, 2019. In its formal notice, MDHHS stated that the Entity is in material default related to not having a viable risk management strategy in accordance with MDHHS standards. The Entity sent a response to MDHHS which disputed the cancellation of its PIHP contract, demanding for a retraction of the notice, and meeting with key stakeholders. MDHHS respond to the Entity which stated that MDHHS will not be retracting the notice of cancellation.

A hearing date with the Administrative Law Judge (ALJ) was scheduled for October 17, 2019 (subsequent to year end). However, MDHHS reached out to the Entity in September of 2019 with the intent of working out a settlement agreement that would address their concerns moving forward and allow continuation of the contract with the Entity. A deferral of the hearing with the ALJ was requested and received.

The first meeting occurred on September 23, 2019 with representatives from MDHHS, the Entity and its Board, and CMHSP Participants. Going into FY20, progress was made on terms of an agreement. However, in March 2020, these negotiation meetings were deferred due to the urgency of the COVID-19 pandemic. The hearings remain on deferral with periodic updates to the ALJ. In FY21 the Entity's Board approved a tactical plan to address several key issues noted during its negotiation meetings with MDHHS along with a proposal to resolve all past liabilities. This proposal has been submitted to MDHHS for review, and the Entity is hopeful it gets approved by MDHHS and the State of Michigan by the summer of 2021.

NOTE 21 – DEFICIT NET POSITION

As of the financial statement date, the Entity is in a deficit net position. As outlined in Numbered Letter 2016-1 issued by the Department of Treasury, this deficit does not pass the 4 Step test for proprietary funds to determine if a deficit elimination plan is required. Therefore, the Entity is required to file a deficit elimination plan with the State.

NOTE 22 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017 and will be effective for the Entity's 2020-2021 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Entities with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

GASB Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the Entity's 2021-2022 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases 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 an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor 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.

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 Members of the Board
Lakeshore Regional Entity
Norton Shores, 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, each major fund, and the aggregate remaining fund information of Lakeshore Regional Entity (the Entity), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements, and have issued our report thereon dated May 14, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 the Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
May 14, 2021

Roslund Prestage & Company
Certified Public Accountants

Lakeshore Regional Entity
Financial Statements
September 30, 2020

Lakeshore Regional Entity

Financial Audit Presentation
May 20, 2021

RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

525 WEST WARWICK DRIVE, SUITE A, ALMA, MICHIGAN 48801

RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Members of the Board
Lakeshore Regional Entity
Norton Shores, 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 Lakeshore Regional Entity (the Entity), as of and for the year ended September 30, 2020, 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, 2020, 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.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that Lakeshore Regional Entity will continue as a going concern. As discussed in Note 19 to the financial statements, Lakeshore Regional Entity has a deficit net position of $(19,265,783) in the Mental Health Operating Fund and has incurred substantial annual deficits in the preceding fiscal years which raises substantial doubt about its ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Lakeshore Regional Entity
Statement of Net Position
September 30, 2020

	Mental Health Operating	Medicaid Risk Reserve	Public Act 2 Fund	Total Proprietary Funds
Current assets				
Cash and cash equivalents	$ 31,460,282	$ -	$ 2,499,809	$ 33,960,091
Due from affiliates	40,063,979	-	4,623,258	44,687,237
Due from MDHHS	13,369,049	-	-	13,369,049
Due from others	100	-	1,530,879	1,530,979
Due from other funds	-	2,420,925	2,877,322	5,298,247
Prepaid expenses	97,384	-	-	97,384
Total current assets	84,990,794	2,420,925	11,531,268	98,942,987
Noncurrent assets				
Capital assets - depreciable, net	-	-	-	-
Total assets	84,990,794	2,420,925	11,531,268	98,942,987
			PY Total assets	52,767,449
Liabilities				
Accounts payable	3,379,133	-	481,673	3,860,806
Accrued payroll and benefits	39,657	-	-	39,657
Due to affiliate	79,139,530	-	659,822	79,799,352
Due to MDHHS	6,095,887	-	-	6,095,887
Due to other funds	5,298,247	-	-	5,298,247
Unearned revenue	10,111,699	-	-	10,111,699
Compensated absences	192,424	-	-	192,424
Total liabilities	104,256,577	-	1,141,495	105,398,072
			PY Total liabilities	77,651,627
Net position				
Net investment in capital assets	-	-	-	-
Restricted	-	2,420,925	10,389,773	12,810,698
Unrestricted	(19,265,783)	-	-	(19,265,783)
Total net position	$ (19,265,783)	$ 2,420,925	$ 10,389,773	$ (6,455,085)
PY Total net position	(24,884,178)	-	-	(24,884,178)

Lakeshore Regional Entity
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2020

	Mental Health Operating	Medicaid Risk Reserve	Public Act 2 Fund	Total Proprietary Funds
Operating revenues				
State funding				
Medicaid	$ 280,861,126	$ -	$ -	$ 280,861,126
Healthy Michigan	39,322,080	-	-	39,322,080
Incentive payments	3,552,797	-	-	3,552,797
PA2 revenues	-	-	3,062,555	3,062,555
Substance use - State portion	1,989,261	-	-	1,989,261
Total State funding	325,725,264	-	3,062,555	328,787,819
Federal funding				
Substance use - Community grant	3,942,016	-	-	3,942,016
Substance use - Prevention	2,122,253	-	-	2,122,253
Substance use - SUD Tobacco Related Prevention	3,816	-	-	3,816
Substance use - Opiod Target Response	375,135	-	-	375,135
Substance use - State Opioid Response Grant	1,107,165			1,107,165
Substance use - Partnership for Success II	334,968	-	-	334,968
MI Youth Treatment Improvement & Enhancement	31,394	-	-	31,394
Block grants	143,445	-	-	143,445
Total Federal funding	8,060,192	-	-	8,060,192
Contributions - Local match drawdown	2,040,096	-	-	2,040,096
Total operating revenues	335,825,552	-	3,062,555	338,888,107
		PY Operating revenues		306,461,206
Operating expenses				
Funding for affiliate partners				
Medicaid	253,929,874	-	-	253,929,874
Healthy MI	37,061,827	-	-	37,061,827
SUD Block Grant	7,323,712	-	-	7,323,712
PA2 Liquor Tax	-	-	297,444	297,444
Total funding for affiliate partners	298,315,413	-	297,444	298,612,857
Other contractual obligations				
Contracted services - Prevention	2,427,471	-	706,376	3,133,847
Hospital Rate Adjuster	9,223,979	-	-	9,223,979
Local match expense	2,040,096	-	-	2,040,096
IPA assessment	3,676,696	-	-	3,676,696
Total other contractual obligations	17,368,242	-	706,376	18,074,618
Administrative expenses				
Board per diem	13,150	-	-	13,150
Capital outlay - under $5,000	31,280	-	-	31,280
Depreciation expense	35,700	-	-	35,700
Dues and memberships	9,966	-	-	9,966
Insurance	18,148	-	-	18,148
Legal and accounting	168,476	-	-	168,476
Meeting expense	8,688	-	-	8,688
Professional contracts	11,323,878	-	-	11,323,878
Rent	36,447	-	-	36,447
Salaries and fringes	1,093,475	-	-	1,093,475
Supplies	10,934	-	-	10,934
Travel and training	25,596	-	-	25,596
Utilities	29,732	-	-	29,732
All other costs	4,396	-	-	4,396
Total administrative expense	12,809,866	-	-	12,809,866
Total operating expenses	328,493,521	-	1,003,820	329,497,341
		PY Operating expenses		322,970,757
Operating income (loss)	7,332,031	-	2,058,735	9,390,766

Lakeshore Regional Entity
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2020

	Mental Health Operating	Medicaid Risk Reserve	Public Act 2 Fund	Total Proprietary Funds
Non-operating revenues (expenses)				
Interest income	$ 13,337	$ -	$ 178	$ 13,515
Total non-operating revenues (expenses)	13,337	-	178	13,515
Transfer in (out)				
Transfer in	-	2,420,925	-	2,420,925
Transfer (out)	(2,420,925)	-	-	(2,420,925)
Total transfer in (out)	(2,420,925)	2,420,925	-	-
Change in net position	4,924,443	2,420,925	2,058,913	9,404,281
			PY Change in net position	(16,488,486)
Net position, beginning of year	(24,884,178)	-	-	(24,884,178)
Restatement	693,952	-	8,330,860	9,024,812
Net position, end of year	$ (19,265,783)	$ 2,420,925	$ 10,389,773	$ (6,455,085)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lakeshore Regional Entity (the Entity) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Entity.

Reporting Entity

Lakeshore Regional Entity was formed by the Community Mental Health Service Programs (CMHSP) Participants to serve as the prepaid inpatient health plan ("PIHP") for the seven counties designated by the Michigan Department of Community Health as Region 3. The CMHSP Participants include Allegan County Community Mental Health, HealthWest (Formerly Muskegon County Community Mental Health), Network180, Ottawa Community Mental Health, and West Michigan Community Mental Health System.

Lakeshore Regional Entity 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:

Mental 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.

Public Act 2 – This fund is used to account for PA2 funds received by the Entity from Michigan Department of Treasury. These funds are to be used for the purpose of providing substance abuse prevention and treatment programs.

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 Michigan 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

NOTE 7 - DUE TO AFFILIATES

Due to affiliates as of September 30th consists of the following:

Description	Amount
Allegan County Community Mental Health	1,965,922
HealthWest	24,235,327
Network180	40,588,149
Ottawa Community Mental Health	8,783,242
West Michigan Community Mental Health	3,306,785
Beacon Health Options	919,927
Total	79,799,352

NOTE 8 - DUE TO MDHHS

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

Description	Amount
Taxes Payable	910,451
Block Grant	656,844
Direct Care Wages Lapse	4,525,164
Other	3,428
Total	6,095,887

NOTE 9 - UNEARNED REVENUE

Unearned revenue as of September 30th consists of the following:

Description	Amount
Medicaid Savings	10,081,642
Other unearned revenues	30,057
Total	10,111,699

NOTE 10 - LONG-TERM LIABILITIES

Changes in the long-term liabilities are as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Compensated absences	176,266	42,598	(26,440)	192,424	192,424

NOTE 11 - NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets as of September 30th consists of the following:

Net investment in capital assets	Amount
Capital asset being depreciated	200,510
Accumulated depreciation	(200,510)
Total	-

NOTE 18 – RESTATEMENT

The restatement in these financial statements consists of the following items:

Description	Amount
Affiliate cost settlement adjustments	(372,955)
Risk share adjustment	1,070,208
Withhold adjustment	(3,301)
Total Mental Health Operating Restatement	693,952

Description	Amount
Recognize PA2 revenue that is no longer deferred due to creation of new fund	8,330,860
Total Public Act 2 Restatement	8,330,860

NOTE 19 – GOING CONCERN

As of the financial statement date, the Entity has a deficit net position of $(19,265,783) in its Mental Health Operating Fund. The Entity liquidated the remaining funds in its Medicaid Risk Reserve (ISF) during FY17. During FY18, the Entity received a supplemental legislative appropriation of $3,500,000 to assist with risk management however the FY18 losses far exceeded this supplemental. The deficits continued in FY19 and the Entity did not have any remaining ISF reserves (nor did it receive any additional supplemental legislative appropriations) to offset the FY19 Operating Fund deficit. These historical deficits have contributed to the FY20 beginning net position of $(24,884,178) in the Mental Health Operating Fund. During FY20, the Entity was able to increase net position in the Mental Health Operating Fund by $4,924,443.

As of the date of the opinion, there is evidence to show that the Entity will be unable to continue to meet its obligations as they become due within 12 months from the financial statement date. The Entity has incurred substantial annual deficits in the preceding fiscal years which raises substantial doubt about its ability to continue as a going concern.

Mitigating factors that could play a role in the Entity's ability to continue as a going concern include 1) a favorable settlement to the contract dispute with MDHHS (see note 20) and 2) continued improvements and changes to the revenue allocation methodology as was experienced in FY20.

NOTE 20 – SUBSEQUENT EVENTS

In July 2019, MDHHS sent a formal notice to the Entity that MDHHS would be cancelling the Specialty Prepaid Inpatient Health Plan contract with the Entity effective September 30, 2019. In its formal notice, MDHHS stated that the Entity is in material default related to not having a viable risk management strategy in accordance with MDHHS standards. The Entity sent a response to MDHHS which disputed the cancellation of its PIHP contract, demanding for a retraction of the notice, and meeting with key stakeholders. MDHHS respond to the Entity which stated that MDHHS will not be retracting the notice of cancellation.

A hearing date with the Administrative Law Judge (ALJ) was scheduled for October 17, 2019 (subsequent to year end). However, MDHHS reached out to the Entity in September of 2019 with the intent of working out a settlement agreement that would address their concerns moving forward and allow continuation of the contract with the Entity. A deferral of the hearing with the ALJ was requested and received.

The first meeting occurred on September 23, 2019 with representatives from MDHHS, the Entity and its Board, and CMHSP Participants. Going into FY20, progress was made on terms of an agreement. However, in March 2020, these negotiation meetings were deferred due to the urgency of the COVID-19 pandemic. The hearings remain on deferral with periodic updates to the ALJ. In FY21 the Entity's Board approved a tactical plan to address several key issues noted during its negotiation meetings with MDHHS along with a proposal to resolve all past liabilities. This proposal has been submitted to MDHHS for review, and the Entity is hopeful it gets approved by MDHHS and the State of Michigan by the summer of 2021.

NOTE 21 – DEFICIT NET POSITION

As of the financial statement date, the Entity is in a deficit net position. As outlined in Numbered Letter 2016-1 issued by the Department of Treasury, this deficit does not pass the 4 Step test for proprietary funds to determine if a deficit elimination plan is required. Therefore, the Entity is required to file a deficit elimination plan with the State.

NOTE 22 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017 and will be effective for the Entity's 2020-2021 fiscal year. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Entities with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

GASB Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the Entity's 2021-2022 fiscal year. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases 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 an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor 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.

Attachment 14

Spring 2021 Public Policy Update

Changes at MDHHS

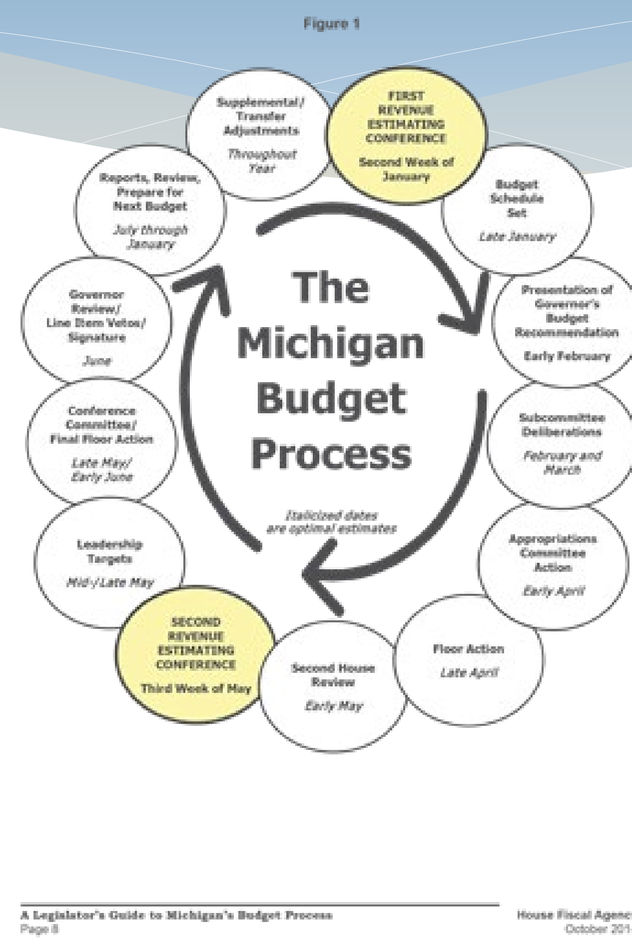
* On Friday, January 22 Robert Gordon announced via Twitter "Today, I am resigning from the Whitmer Administration. It's been an honor to serve alongside wonderful colleagues. I look forward to the next chapter."

* Governor Gretchen Whitmer quickly appointed Elizabeth Hertel as Director of the Michigan Department of Health and Human Services (MDHHS).

    * Elizabeth Hertel previously served as the Senior Chief Deputy Director for Administration for MDHHS, where she oversees External Relations and Communications, Finance and Administration, Legislative Services, Legal Affairs, Policy & Planning, Strategic Integration, Organizational Services, Workforce Engagement and Community and Faith Engagement.

* <u>March 23 was the last day for the Michigan Senate to reject the appointment</u>

Budget Items



FY22 Executive Budget

Specific Mental Health/Substance Abuse Services Line items

	FY'20 (Final)	FY'21 (Final)	FY'22 (Exec Rec)
-CMH Non-Medicaid services	$125,578,200	$125,578,200	$125,578,200
-Medicaid Mental Health Services	$2,487,345,800	$2,653,305,500	$3,011,525,500
-Medicaid Substance Abuse services	$68,281,100	$87,663,200	$80,988,900
-State disability assistance program	$0	$2,018,800	$2,018,800
-Community substance abuse (Prevention, education, and treatment programs)	$108,754,700	$108,333,400	$78,005,200
-Health Homes Program	$3,369,000	$26,769,700	$33,005,400
-Autism services	$230,679,600	$271,721,000	$356,875,800
-Healthy MI Plan (Behavioral health)	$371,843,300	$589,941,900	$540,551,700
-CCBHC	$0	$0	$25,597,300

FY22 Executive Budget

Other Highlights of the FY22 Executive Budget:

Direct Care Worker Wage Increase

The Executive Recommendation provides $110 million ($43.1 million general fund) in fiscal year 2021 and $360 million ($121.4 million general fund)in fiscal year 2022 to permanently continue the $2 per hour wage increase for direct care workers who provide critical care to our most vulnerable neighbors through Medicaid-funded behavioral health supports, community-and facility-based long-term care services, and home-based services provided through area agencies on aging. Maintaining the wage increase will help to stabilize the workforce and ensure continued access to services.

CCBHC Implementation

The FY22 Executive Budget includes $26.5million gross, $5.0million general fund(6.0FTEs) to support a two-year implementation of the Centers for Medicare and Medicaid (CMS) Certified Community Behavioral Health Clinic (CCBHC) Demonstration program. Proposed funding will be used to:

* **Establish 14 CCBHC sites**, through 11 Community Mental Health Programs and 3 non-profit behavioral health entities, to provide comprehensive access to behavioral health services to vulnerable individuals.

* Create a new Behavioral Health Policy and Operations Office to oversee the implementation of the CCBHC demonstration, Medicaid Health Homes, and other behavioral health integration initiatives The new office will comprise 6 new FTE positions and 9 reassigned FTE positions responsible for policy, operations, technical assistance, and quality monitoring support.

FY22 Executive Budget

KB vs. Lyon lawsuit

The FY22 Executive Budget includes $90 million gross ($30 million general fund) to recognize new costs related to the implementation of policy changes associated with the KB v. Lyon lawsuit settlement. These caseload costs will come from program changes aimed at increasing consistency in access to behavioral health services for Medicaid enrollees and those served through the child welfare system.

Other items

- $1 million for Autism Service Navigation (general fund) is maintained in the Executive Budget on an ongoing basis. Support for this program has been included in recent budgets on a one-time basis.
- $3.5 million for cross enrollment expansion to improve technology and communication tools to better identify and enroll individuals needing support and services.
- $8.4 million to reduce health disparities and expand the use of community-based navigators to enhance access to health coverage, and improve screening, data sharing and interoperability of existing data systems through the Michigan Health Information Network.
- $15 million one-time for state psychiatric hospital special maintenance for capital improvements at all five of Michigan's psychiatric hospitals.

FY22 House and Senate Budgets

FY22 House and Senate Budget Proposals

Specific Mental Health/Substance Abuse Services Line items

	FY'22 (Exec Rec)	FY'22 (House)	FY'22 (Senate)
-CMH Non-Medicaid services	$125,578,200	$125,578,200	$125,578,200
-Medicaid Mental Health Services	$3,011,525,500	$2,775,817,800	$3,005,348,100
-Medicaid Substance Abuse services	$80,988,900	$80,988,900	$80,988,900
-State disability assistance program	$2,018,800	$2,018,800	$2,018,800
-Community substance abuse (Prevention, education, and treatment programs)	$78,005,200	$19,501,200 (1/4 funding)	$78,005,200
-Health Homes	$33,005,400	$33,005,400	$33,005,400
-Autism services	$356,875,800	$356,875,800	$356,875,800
-Healthy MI Plan (Behavioral health)	$540,551,700	$540,551,700	$540,551,700
-CCBHC	$25,597,300	$25,597,300	$25,597,300

FY22 House and Senate Budgets

Other Highlights of the FY22 House Budget:

Direct Care Worker Wage Increase

* House budget includes a $100 placeholder

CCBHC Implementation

House concurs with the FY22 Executive Budget and includes $26.5million gross, $5.0million general fund(6.0FTEs) to support a two-year implementation of the Centers for Medicare and Medicaid (CMS) Certified Community Behavioral Health Clinic (CCBHC) Demonstration program. Proposed funding will be used to:

* **Establish 14 CCBHC sites**, through 11 Community Mental Health Programs and 3 non-profit behavioral health entities, to provide comprehensive access to behavioral health services to vulnerable individuals.
* Create a new Behavioral Health Policy and Operations Office to oversee the implementation of the CCBHC demonstration, Medicaid Health Homes, and other behavioral health integration initiatives The new office will comprise 6 new FTE positions and 9 reassigned FTE positions responsible for policy, operations, technical assistance, and quality monitoring support.

FY22 House and Senate Budgets

KB vs. Lyon lawsuit

The House does not include funding for the KB v. Lyon lawsuit. (The FY22 Executive Budget includes $90 million gross ($30 million general fund) to recognize new costs related to the implementation of policy changes associated with the KB v. Lyon lawsuit settlement.)

Specialty Medicaid Managed Care Health Plan for Foster Children

House includes $500,000 Gross ($250,000 GF/GP) to complete an actuarial analysis and any necessary federal approvals to create a specialty Medicaid managed care health plan for children in foster care to provide comprehensive medical, behavioral, and dental services

Other items

* Concurs with the executive budget and includes $1 million for Autism Service Navigation (general fund)
* House concurs with the executive budget and includes $36.4 million in federal SOR grant funding to increase access to medication-assisted treatments, addressing unmet treatment needs, and reducing opioid overdose deaths.
* House adds $750,000 GF/GP for development and operation of a resiliency Center for Families and Children to provide services to families and children experiencing trauma, toxic stress, chronic disability, neurodevelopmental disorders or addictions (Boilerplate sec 1919)
* House adds $300,000 GF/GP for the St. Louis Center, a residential community for children and adults with intellectual and developmental disabilities;
* Enhanced FMAP redetermination – placeholder (the Governor's recommendation included $23.2 million Gross for additional admin costs for Medicaid eligibility redeterminations once the enhanced FMAP expires
* House adds one-time funding for special Olympics capital improvements ($1 million)
* House adds $19.1 million for MI Choice waiver program to add 1,000 slots by end of FY 21-22

FY22 House and Senate Budgets

Other Highlights of the FY22 Senate Budget:

Direct Care Worker Wage Increase

* The Senate budget reflects a full year implementation of a **$2.35/hour direct care worker wage increase** on an ongoing basis - $460,007,800 (Gross) / $159,775,100 GF/GP

CCBHC Implementation

* **Senate budget concurs with the FY22 Executive Budget and includes $26.5million gross, $5.0million general fund(6.0FTEs) to support a two-year implementation of the Centers for Medicare and Medicaid (CMS) Certified Community Behavioral Health Clinic (CCBHC) Demonstration program.**

KB vs. Lyon lawsuit

* **The Senate budget includes $45 million (Gross) / $15 million GF/GP funding for the KB v. Lyon lawsuit.** (The FY22 Executive Budget includes $90 million gross ($30 million general fund) to recognize new costs related to the implementation of policy changes associated with the KB v. Lyon lawsuit settlement.)

Local Match Draw Down

* The Senate bill includes funding for the second and third year of a five-year phase-out of the use of Local CMH Local Match funding to support the Medicaid Restricted Mental Health Services line. **$10,190,200 GF/GP**

FY22 House and Senate Budgets

Other items in Senate Budget:

* Senate concurs with the executive budget and includes $1 million for Autism Service Navigation (general fund)
* Senate concurs with the executive budget and includes $36.4 million in federal SOR grant funding to increase access to medication-assisted treatments, addressing unmet treatment needs, and reducing opioid overdose deaths.
* Senate adds $1.3 million increase for the MI Docs program
* Senate adds $100 placeholder for crisis stabilization units
* Senate increases in Medicaid funding for mental health and SUD services ($35 million increase)
* Senate adds $3 million for McLaren Greenlawn project
* Senate adds Families Against Narcotics placeholder

FY22 House and Senate Budgets

House & Senate Key Boilerplate Sections:

Sec. 236 NEW Senate – language to require the same level of reimbursement for services provided through telemedicine as for services provided through face-to-face contact in the Medicaid program

Sec. 908. NEW Senate – Uniform credentialing , As a condition of their contracts with the department, PIHPs and CMHSPs, in consultation with the Community Mental Health Association of Michigan, shall work with the department to implement section 206b of the mental health code, MCL 330.1206b, to establish a uniform community mental health services credentialing program.

Sec. 912. Salvation Army Harbor Light Program – executive deleted but House and Senate retained language to contract with the Salvation Army Harbor Light Program to providing Non-Medicaid substance use disorder services if program meets standard of care. *Executive deletes; House & Senate retains.*

Sec. 927. Uniform Behavioral Health Service Provider Audit. Existing boilerplate requires DHHS to create a uniform community mental health services auditing process for CMHPs and PIHPs, outlines auditing process requirements, and requires a report. *Executive deletes; House & Senate retains.*

Sec. 928. Each PIHP shall provide, from internal resources, local funds to be used as a part of the state match required under the Medicaid program in order to increase capitation rates for PIHPs. These funds shall not include either state funds received by a CMHSP for services provided to non-Medicaid recipients or the state matching portion of the Medicaid capitation payments made to a PIHP.

- ***House budget did not include 5-year phase out language***
- ***Senate includes 5-year phase out language and years 2 & 3 of funding.***

FY22 House and Senate Budgets

Sec. 964. Behavioral Health Fee Schedule. Requires the department to provide a report with the standardized fee schedule for Medicaid behavioral health services and supports to the Legislature by July 1 and must include the adequacy standards to be used in all contracts with PIHPs and CMHSPs. In developing the fee schedule the Department must prioritize and support essential service providers and develop a standardized fee schedule for revenue code 0204.

Sec. 974. The department and PIHPs shall allow an individual with an intellectual or developmental disability who receives supports and services from a CMHSP to instead receive supports and services from another provider if the individual shows that he or she is eligible and qualified to receive supports and services from another provider. Other providers may include, but are not limited to, MIChoice and program of all-inclusive care for the elderly (PACE).

Sec. 1005. Health Home Program – current boilerplate requires DHHS to maintain and expand the number of behavioral health homes in PIHP regions 1, 2, and 8 and to expand the number of opioid health homes in PIHP regions 1, 2, 4, and 9. Executive deletes. *House revises to maintain the current behavioral health and substance use disorder health homes and permits DHHS to expand into 2 additional PIHP regions.*

Sec. 1846. Graduate Medical Education Priorities - Requires DHHS to distribute GME funds with an emphasis on encouragement of the training of physicians in specialties, including primary care, that are necessary to meet future needs of this state, and training of physicians in settings that include ambulatory sites and rural locations. *House revises to also emphasize training of pediatric psychiatrists.*

COVID Supplemental Budgets

Congress passed two large COVID relief packages:

* December under the Trump Administration - $900 billion
* March under the Biden Administration - $1.9 Trillion

Michigan received a TON of federal money from the recent COVID packages.

* $5.6 billion from December
* $!8 billion from March

Legislature using the appropriations process as leverage point with Governor.

Key Budget Items for CMHA Members

Direct Care Wage Increase

* Support continuation of $2/hour increase for remainder of FY21 and support Governor's call to permanently address the issue.

Local Match draw down – Section 928

* FY21 supplemental budget – Advocate for $5 million GF to offset local/county resources for Medicaid match purposes. FY21 budget boilerplate section 928 called for a 5-year phase out of the use of local/county dollars for Medicaid match purposes, however the $5 million GF appropriation was not included in the final budget and the phase out remained paused at FY20 levels. FY21 should have been year 2 of the 5-year phase out plan.

* FY22 budget – Advocate for continued 5-year phase out and inclusion of the FY20 & FY21 boilerplate language and $5 million of GF to offset local/county resources (FY22 should be year 3 of 5-year phase out).

Key Budget Items for CMHA Members

Certified Community Behavioral Health Clinics (CCBHC)

On August 5, 2020 the Centers for Medicare & Medicaid Services (CMS) and the Substance Abuse & Mental Health Services Administration (SAMHSA) announced that the states of Kentucky and Michigan have been selected as additional participants in the Certified Community Behavioral Health Clinic (CCBHC) Demonstration. As part of the state implementation and roll out of the demonstration program, Michigan will be required to put up a small amount of state match dollars to draw down federal support for the program.

- FY22 budget – Advocate for at least $5 million GF which will allow the state to implement the greatest number of CCBHC sites across the state.

Substance Use Disorder Items

In November of 2020 PIHPs were informed that the substance use disorder block grant program will be taking a $15 million reduction in FY21 (permanent reduction moving forward) due to an over-allocation of funds (lapse funds) by the state in past years. In addition, PIHPs were recently informed that federal opioid response grant dollars would also be reduced in FY21. These reductions have caused an immediate and drastic hole in the SUD budget for the current and upcoming fiscal years. In December 2020 – Congress passed the last COVID stimulus package of $900 billion, included in that package was an additional $1.7 billion for Substance Abuse Prevention and Treatment Block Grant and $1.5 billion for State Opioid Response Grants.

- FY21 supplemental budget (HB 4019 adds $13.1 million more in SUD block grant) – Advocate for the state to use the recently approved federal dollars to help fill current budget year gaps created by the recent reductions in the SUD block grant and federal SOR grants, which will help smooth the reductions to programs over a few years versus dramatic cuts all in one fiscal year.

- FY22 budget – Advocate for the state to continue to use recently approved federal dollars to help smooth the recent reductions in the SUD block and federal SOR grant programs.

Gearing Towards Integration

https://www.youtube.com/watch?v=vUi1PdYn5nk